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Cor Boonstra of Phillips
'Don't declare victory before you create weapons'
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Russia
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Malaysia
Media galvanise opposition to Mahathir
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HypoVereinsbank
Bosses fall out over the east German losses
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FT-IT Monthly Review

Because of today's publication of the UK Pre-Budget report, the FT Review of Information Technology will now appear tomorrow

WORLD NEWS

Aznar authorises official talks with Eta allies

Spanish prime minister José Maria Aznar yesterday authorised talks between the government and allies of the Basque guerrilla group Eta. The separatists declared a ceasefire six weeks ago after 30 years' violence. **Page 2**

Gucci ex-wife guilty of murder plot
An Italian court found Patrizia Reggiani Gucci, ex-wife of murdered fashion magnate Maurizio Gucci, guilty of plotting to murder him in 1995. She was sentenced to 29 years in jail. **Page 3**

Pinochet extradition request
Spanish judge Baltasar Garzón, who ordered the arrest of Chile's Augusto Pinochet formally asked the Madrid government to seek the ex-dictator's extradition from Britain. **Page 2**

Rebels attack on eve of talks
Colombia's leftwing guerrillas have attacked the national police only days before peace talks with the government are due to start. Reports suggest up to 70 policemen and 10 civilians died and another 45 police were kidnapped when the Revolutionary Armed Forces of Colombia attacked a town near the Brazilian border.

Army 'fomented Indonesia unrest'
Members of Indonesia's military provoked last May's riots in which more than 1,000 people died, an independent commission found. The inquiry called for a government probe into two top officers, including ex-president Suharto's son-in-law. **Page 6**

Hong Kong and EU in customs deal
The European Union and Hong Kong agreed to crack down on drug trafficking, piracy and other offences. **Page 4**

Nigerian ex-ruler to stand
Olusegun Obasanjo, a former Nigerian ruler, is to seek nomination to contest February's presidential elections. Gen Obasanjo is the only Nigerian military head of state to have ceded power to elected civilians. **Page 8**

China detains fraud suspects
Several people are being held in China over a $36m foreign exchange fraud. Two Guangdong Xinhui Tourist Development Company officials allegedly made false import declarations to buy foreign currency illegally. **Page 6**

Wreckage reveals another body
Swedish police found the remains of another victim of last week's fire at a Gothenburg disco. The discovery raised the death toll to 63.

Paris bails out pig farmers
The French government has had to find FFr150m ($27.2m) of extra funds for pig farmers to head off countrywide protests over a collapse in pork prices. **Page 3**

HK soccer players in court
Five Hong Kong soccer players appeared in court on charges related to match-fixing, including the rigging of a World Cup qualifier.

BUSINESS NEWS

Surge in eurobond issues points to revival of demand

Large-scale eurobonds were issued by US and European companies in the strongest sign yet that the European investor base is regaining an appetite for risk. **Page 17; Bonds, Page 24**

RJR Nabisco shares have risen by more than 20 per cent amid speculation that the US tobacco and food group is about to sell or spin off R.J. Reynolds International, its overseas tobacco business. **Page 17**

SEB, financial flagship of Sweden's Wallenberg business empire, reported a third-quarter loss of SKr1.37bn ($176m) after taking heavy provisions for possible lending losses in Russia. **Page 20**

Kvaerner shares fell 17 per cent after the troubled Anglo-Norwegian engineering and shipbuilding conglomerate warned of a "significant weakening" in third-quarter results. **Page 17**

Credit Suisse, one of the world's leading private banks, may withdraw from private banking operations in Japan and is reviewing its activities elsewhere in Asia. **Page 21**

Société Générale de Surveillance, the world's biggest inspection and testing company, is to cut staff at its Geneva headquarters in a bid to rebuild profitability. **Page 20**

Donna Karan, New York fashion house, warned that its 1998 profits might fall below expectations because of the downturn in demand from Asia. **Page 18**

Mellon Bank of the US and ABN Amro Bank of the Netherlands announced a global alliance to provide custody services. **Page 18**

Cathay Pacific, Hong Kong-based airline, completed an outline proposal for taking a controlling stake in the troubled Philippine Airlines. **Page 21**

Bangkok plans to contract out more than $1bn worth of essential city services to private companies. **Page 16**

Ssangyong, South Korean conglomerate, is to sell its main cement and oil refining businesses to help it pay off debt. **Page 21**

UEM, Malaysian toll road operator forced last year to bail out its troubled parent Renong, is to defer interest payments on loans totalling M$2.92bn ($768m). **Page 17**

Viag may sell its Klökner & Co logistics subsidiary. The move would mark a refocusing for the Munich-based power-to-telecommunications conglomerate. **Page 20**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. **Page 23**

Spain and Portugal cut interest rates

Reductions bring euro zone convergence closer

By David White in Madrid and Tim Burt in Stockholm

The pace of interest rate convergence in the future European single currency accelerated yesterday when Spain and Portugal announced cuts in interest rates.

Sweden which will not join economic and monetary union on January 1, also cut its rates. Denmark, also staying out of the single currency, is expected to follow suit tomorrow.

The cuts follow a percentage point reduction in Italian interest rates last week. Of the euro zone countries, only Ireland, with a short-term rate of 5.75 per cent, is much adrift from the expected central convergence rate of 3.3 per cent.

Spain's 0.25 percentage point cut in its official benchmark rate – the second by the Bank of Spain in a month – brought the rate down to 3.50 per cent, just 0.20 points above the German level. The Bank of Portugal cut its key repurchase pact rate by a quarter of a percentage point to 3.75 per cent.

Spain's previous half-point cut, on October 6, opened a final convergence phase that will end when the European Central Bank takes over the running of monetary policy on January 1.

Analysts in Madrid said the decision to speed up the process of interest rate alignment might enable the German Bundesbank – whose council is due to meet on Thursday – to make a symbolic rate cut before the end of the year.

The Bank of Spain's decision came amid improved prospects for control of inflation, confirmed yesterday by figures for factory-gate prices showing a 0.3 per cent drop in September and a 1.6 per cent fall over the last 12 months.

Henrik Lumholdt, Madrid-based economist at Bank of America, said the interest-rate cut was "warranted from an inflation viewpoint, but not from an economic viewpoint".

Sweden's Riksbank cut its repo rate from 4.10 per cent to 3.85 per cent, as widely expected by the market. The central bank justified the move by saying inflation would fall below its 2 per cent target over the next 24 months.

Bank officials added the weakening international economic outlook had helped reduce inflationary pressures by reducing capacity utilisation in Swedish industry.

In Stockholm, some analysts predicted further interest rate reductions in the near future. But others suggested the bank might delay further reductions until publication of its next quarterly inflation report in early December.

Interest rate cuts in Sweden have also raised expectations in Norway that the central bank there might ease monetary policy following seven increases in interest rates this year.

Denmark's central bank is expected to announce a cut of 0.15 percentage points to 4.5 per cent tomorrow.

Capital Markets, Page 24
Currencies, Page 25

ECB chief rejects political influence on monetary policy

By Wolfgang Münchau in Frankfurt and Neil Buckley in Brussels

Wim Duisenberg, president of the European Central Bank, last night vowed to defend its independence and to resist interference from political leaders who have been calling for lower interest rates.

While refusing to forecast future rates, Mr Duisenberg gave the strongest signal yet that European interest rates would converge to the Franco-German level of 3.3 per cent by the end of the year.

And he gave an upbeat assessment of recent economic trends, in a strong signal that the ECB is not too alarmed about the economic outlook.

Speaking after a meeting of the ECB's governing council, Mr Duisenberg set out clear limits over the extent of policy co-operation between the central banks and governments – a key request by Oskar Lafontaine, the German finance minister.

He poured cold water on Mr Lafontaine's proposal of exchange-rate target zones for the euro, the new single currency, and the dollar. He also warned against attempts to weaken the EU's stability and growth pact, which seeks to limit budget deficits.

In a direct reference to recent comments by political leaders, Mr Duisenberg said it was not uncommon for politicians to offer their opinion on monetary policy, but added: "It would be very abnormal for the suggestions to be listened to." His comments came a day after Gerhard Schröder, the German chancellor, said it should become normal for politicians and central bankers to have a public discussion of monetary policy.

Mr Duisenberg argued that governments had the means to reduce Europe's chronically high unemployment through structural reforms. "I appeal to all political functionaries to recognise that monetary policy cannot solve the structural problems," he said. He warned governments not to let up in their efforts to consolidate fiscal policy.

Mr Duisenberg said the ECB governing council gave the highest priority to interest-rate convergence at this point. He welcomed yesterday's decision by Spain and Portugal to cut rates as part of the process, adding that the timing of the announcement, to coincide with the council meeting, was no accident.

The European Commission, meanwhile, defended the independence of the ECB, warning that this was "crucial ... to the credibility of monetary policy" in the eurozone.

A spokesman for Yves-Thibault de Silguy, monetary affairs commissioner, said the Commission felt the independence of the ECB from political interference was a "very clear issue". He added: "There is no question of any instructions being given to the central bank with regard to its monetary policy, nor is it up to the central banks to accept such instructions whether they be from a minister, the government or institutions."

Jeb Bush, Republican candidate in the contest for the governorship of Florida, speaks to a supporter of opponent Buddy McKay after casting his vote in Miami yesterday. For results, see http://www.ft.com AP

UK expects shallow downturn

By our UK staff

The UK government expects the country's economic downturn next year to be shallow and shortlived, with a quickening of growth the following year.

Gordon Brown, chancellor of the exchequer, said yesterday he expected the economy to grow at only 1.5 per cent in the next fiscal year to March 31, 2000, because of the slowdown throughout the world.

He had previously forecast growth of about 3 per cent but predicted yesterday that the pace of growth would quicken again in 2000 to 2.25-2.75 per cent.

Mr Brown was presenting a report to parliament setting the stage for next March's Budget. "Because in the last 18 months inflation has been brought down to the target of 2.5 per cent and because Britain has set in place a long-term monetary framework with the independence of the Bank of England, it is better placed than in the past to face these global difficulties," he said.

Mr Brown also argued that the lower level of forecast growth remained consistent with stable inflation, sending a signal to the Bank of England that interest rates could continue falling. The central bank's monetary policy committee is expected to agree a quarter point cut in the bank's short term benchmark interest rate to 7 per cent tomorrow.

British financial markets reacted calmly to the statement. The 10-year benchmark gilt (government bond) yielded 4.975 per cent at the close, down from 5.1 per cent on Monday. The FTSE 100 index closed down 21.6 points at 5,503.9. Sterling closed little changed just above DM2.75 and at $1.66.

Mr Brown said the government would run a budget surplus this year of £1.5bn, a marked improvement on the £1bn deficit he forecast in March.

He said an additional £40bn would be invested in modernising education and health over the next three years and promised consultation on a range of initiatives to boost UK productivity.

Details, Page 11
Barry Riley, Page 17

Hurricane damage lifts coffee prices

By Paul Solman in London and James Wilson in Tegucigalpa, Honduras

Coffee markets are feeling the impact of Hurricane Mitch, which has swept through Central America, killing about 7,000 people.

The tropical storm is threatening the region's exports of high quality arabica coffee beans – which account for 10-12 per cent of world coffee production.

Arabica futures soared to 127 cents a pound in New York yesterday afternoon after rising 9 per cent to 119.7 cents on Monday. Analysts predicted that prices would remain at these levels as traders continued to worry about supplies.

"The situation is very serious," one analyst said yesterday. "The Central American harvest is at its peak, with the cherries ripe on the trees. The rains have knocked them off and either buried them or washed them away."

The storm has smashed through Honduras and Nicaragua as well as El Salvador.

Details are patchy about the extent of crop damage as many areas remain inaccessible, but early estimates suggest about 20 per cent of Central America's 1998/99 harvest will be lost.

Hurricane Mitch has now been downgraded to tropical storm, but rather than passing through it continues to sit over the region, leaving growers unable to harvest or ship produce.

Honduras, which last year earned more than $500m from coffee exports, expected to produce 2.3m 60kg bags in this growing season. The country has 63,000 growers, many producing just a few dozen bags.

In Guatemala, William Stixrud, president of the National Coffee Association, said 1998/99 exports could fall from 3.5m to 3m bags and warned of severe short-term supply bottlenecks as bridges have been washed away between coffee areas and the country's main port. "We probably will not be able to export for the next 15 days," said Mr Stixrud.

The loss of so much arabica coffee prompted traders to cover their positions by buying on New York's Coffee Sugar and Cocoa Exchange, pushing the benchmark December contract to its highest for almost six months.

New York's surge had a knock-on effect on robusta coffee bean futures in London, and the nearby November contract closed at $1,910 yesterday, after jumping $100 to $1,880 a tonne on Monday.

Mitch claims 7,000 lives, Page 7
Commodities, Page 26

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8682.98	(–23.17)
NASDAQ Composite	1764.31	(–16.60)
Europe and Far East		
CAC40	3583.64	(+14.04)
DAX	4705.08	(–56.07)
FTSE 100	5503.9	(–21.6)
Nikkei	closed	
US Lunchtime RATES		
Federal Funds	5.375%	
3-mth Treas Bills: Yld	4.461%	
Long Bond	104⅝	
Yield	5.209%	
OTHER RATES		
UK: 3-mo Interbank	7¼%	[illegible]
UK: 10 yr Gilt	131.27	(131.40)
France: 10 yr OAT	134.08	(134.13)
Germany: 10 yr Bond	104.83	(104.88)
Japan: 10 yr JGB	closed	(103.64)
NORTH SEA OIL (Argus)		
Brent Dated	$11.91	(12.31)

GOLD		
New York: Comex	$289.7	(290.9)
London:	$288.65	(292.35)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6585	
DM	1.65875	
FFr	5.5618	
SFr	1.3548	
Y	115.325	
London:		
£	1.6568	(1.6679)
DM	1.6588	(1.6507)
FFr	5.5617	(5.5350)
SFr	1.3541	(1.3480)
Y	115.285	(114.88)
Tokyo Closed		
Sterling		
DM	2.7482	(2.7531)

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WORLD NEWS

EUROPE

Aznar agrees indirect contacts with Eta

By David White in Madrid

José María Aznar, the Spanish prime minister, said yesterday he had authorised officials to hold contacts with people close to Eta, the illegal Basque separatist organisation, to try to secure a lasting end to political violence.

Government officials emphasised that the talks would be exploratory. The aim was to see if Eta, which began an indefinite ceasefire more than six weeks ago, was ready to take the necessary preliminary steps to begin a peace process.

The centre-right administration in Madrid has insisted that Eta should give proof of its sincerity in laying down its arms, but has avoided saying what this might involve.

In the meantime, it has come under pressure to make a conciliatory gesture in response to Eta's ceasefire initiative. Last month, it indicated willingness to reconsider its policy towards jailed Eta members by agreeing to transfer four prisoners to jails in the Basque region, but it has made it clear that it aims to maintain a step-by-step strategy.

Senior officials do not rule out eventually holding direct contacts with Eta itself. But they say any such talks would focus on issues such as the rehabilitation of prisoners or the situation of exiled Eta members. They rule out any kind of political negotiation with the organisation.

The last official talks between government representatives and Eta leaders took place in Algeria almost 10 years ago, but failed to achieve a peace deal.

Mr Aznar was asked yesterday whether he had authorised contacts with the Basque National Liberation Movement (MLNV), which embraces a range of radical organisations including Eta. He replied simply "Yes", but declined further details.

Josep Piqué, the cabinet spokesman, emphasised the need for discretion and said the government would not say when, where or with whom the contacts would be held. Nonetheless, Mr Aznar's public confirmation of the plan brought sharp criticism from opposition parties. The Socialist party complained it had not been informed and said it was "irresponsible" for the government to act without a political consensus.

The government is seeking signs that Eta is prepared to abandon its armed struggle permanently. In its ceasefire declaration, made in the run-up to elections in the Basque region last month, the organisation reserved the right to maintain weapons supplies and defend itself.

However, officials view the election results, which gave a near-record score of almost 18 per cent of the vote to Eta's political allies, Euskal Herritarrok, as strengthening the hand of the Eta leaders who decided on the ceasefire.

They say there is no sign of a dissident movement within the organisation, which is smaller and weaker than its Irish counterpart, the IRA.

Posters for Euskal Herritarrok, Eta's political arm, on display during the regional elections AP

EU looks at new defence dimension

By Alexander Nicoll in Vienna

Europe today takes a tentative step towards a more unified defence policy with an unprecedented meeting of European Union defence ministers in Vienna.

The gathering, an initiative of Austria as current holder of the EU presidency, is informal and can take no decisions.

However, it coincides with Britain's recent move to start a debate on how Europe should best respond to crises threatening its vital interests such as the violence in the Serbian province of Kosovo.

George Robertson, UK defence secretary, will pose the same questions about Europe's capacity to react as did Tony Blair, the prime minister, during a European summit last month.

UK officials stressed Britain had no blueprint for a reformed European security structure. However Kosovo had shown up weaknesses in Europe's ability to take a common stance and then to act on it. Britain wants EU partners to consider a more streamlined institutional structure and to ensure that military capabilities are adequate for possible intervention in a crisis.

"Would Europe on its own have been able to intimidate President Milosevic?" Mr Robertson asked yesterday.

The Amsterdam treaty signed last year contained provisions to strengthen a common EU foreign and security policy, including the ability to undertake a range of tasks including humanitarian and rescue missions, peacekeeping and crisis management.

For military involvement in such missions, the EU would have to call on the Western European Union (WEU), Europe's little-used security organisation. The WEU, in turn, would call on Nato for military assets. The British concern is that this complex sequence might not work when it was needed.

France, which has proposed folding the WEU into the EU, is likely to be an active participant in today's debate, which will focus on methods of crisis management. Germany has also favoured merging the WEU with the EU, but the position of the new Bonn government is not yet clear.

The Austrian initiative has pleased Nato, which feels Europe's efforts to define security policies have been stagnating. Washington will expect a clear position on a European security and defence identity within the alliance before next April's Nato summit.

However, as all three organisations – EU, WEU and Nato – all have differing memberships within Europe, there are likely to be awkward issues to confront if the present architecture is to be simplified.

Moldovan currency declines sharply

By Alan Beattie in London

A panicked rush out of the Moldovan currency, the leu, led to widespread alarm yesterday as the public struggled to buy dollars and businesses in Chisinau, the capital, shut their doors.

The cancellation for the second day running of the daily currency auction in the former Soviet republic led the Moldovan central bank to withdraw from the official interbank currency exchange, where it has been losing around $2m a day propping up the leu.

The announcement shocked the country's banks, which have seen mass speculation as individuals joined businesses in swapping leu for dollars as the currency slumped.

"Banks pulled out of the domestic debt market and started speculating in foreign exchange some weeks ago," said one observer who recently visited the country.

"The attacks on the leu intensified as dealers sought to drive the leu down."

The speculation reached its height yesterday as a dearth of leu buyers led to the second cancellation of the daily currency auction. The rules of the exchange, which until now has set the official rate for the leu, state that the currency can move by no more than 10 per cent in a day.

But the only offer made for the leu on Monday was at a rate of 10 to the dollar, a drop of more than a third from the previous official value of 6.4, and eventually the auction was annulled.

A repeat cancellation yesterday led to the atmosphere of uncertainty and alarm.

"Speculative attacks on the currency by banks were exacerbated by domestic residents trying to buy dollars and companies who had urgent dollar transactions they needed to complete," an economist from the European Bank for Reconstruction and Development (EBRD) said yesterday.

"Given its close trading links with Russia, the currency had to go eventually," said Kitty Ussher, a former eastern Europe analyst with the Economist Intelligence Unit. "But it is such a pity – in many ways Moldova was the currency success story of the former Soviet Union," she said.

Ms Ussher thought that the news might jeopardise the planned privatisation of Moldtelecom, the country's telecommunications company.

Spanish judge moves on Pinochet

By David White in Madrid

Baltasar Garzón, the Spanish judge trying to bring Augusto Pinochet to trial, yesterday lodged a formal application with the Madrid authorities for the former Chilean dictator's extradition from the UK.

His move was timed just before a House of Lords appeal hearing, starting in London today, on the general's immunity from or liability to extradition claims.

The High Court in London last week declared Gen Pinochet immune on grounds he was head of state at the time of the crimes in question but said he should stay in the UK pending appeal.

The Spanish government confirmed yesterday it would process the extradition request without delay. However, a formal extradition demand requires approval by the Madrid cabinet, which is not due to meet until Friday, after the law lords' hearing.

The case submitted by the investigating judge, running to almost 400 pages, backs up accusations of genocide, terrorism and torture during Gen Pinochet's presidency from 1973 to 1990. It accuses him of responsibility for an international criminal organisation, in co-ordination with other military and civilian authorities in Chile and other Latin American countries, which undertook a "systematic plan" of kidnapping and torture, leading to the disappearance of at least 3,178 people.

In his arguments, Mr Garzón said the principle of "sovereign immunity" as applied by the UK High Court did not exist in the Spanish legal system and was not supported by international law.

His initiative to pursue a genocide case against Gen Pinochet received backing last Friday from Spain's national court. However, state prosecutors filed formal appeals yesterday against the warrants which Mr Garzón issued for Gen Pinochet's arrest.

Meanwhile, French prosecutors sent a formal request to the UK, via Interpol, for Gen Pinochet's arrest pending an extradition case.

On the banks of the River Ob the Russian economy shows its two faces

Arkady Ostrovsky visits the Siberian oil towns of Surgut and Nefteyugansk and finds radically different moods

Two oil towns face each other across the river Ob, which divides east from west Siberia. They look similar – grey and depressing monuments to Soviet industry built on the swamps of Taiga forests – but as harsh winter and harsher economic times tighten their grips, the mood in each is radically different.

In Surgut, on the east bank, a Siberian oilman dressed in Soviet-style grey suit and tinted glasses, dubbed the "general" by his employees, has built up the oil company that takes its name from the town and is considered the best managed in Russia. Surgutneftegas is debt-free and analysts believe it should be proof against the storm of economic uncertainty that broke across Russia this summer.

Across the river in Nefteyugansk, people rail against a slick Muscovite banking tycoon dressed in a Marlboro Classics shirt who bought their company, Yuganskneftegas, and milked it for profit, impoverishing the town in the process.

Queuing recently outside a bank for their wages, which they had not received in full for three months, Nefteyugansk workers complained bitterly about Mikhail Khodorkovsky, one of the new class of bankers, the so-called "oligarchs". Some counted themselves lucky to receive Rbs200 ($12.50) – or 10 per cent of the wages due three months earlier.

Alevtina Kosareva, 43, says she has been forced to exchange her sewing machine for vegetables. "He [Khodorkovsky] keeps us on a drip-feed so we do not starve and continue to work for him. Khodorkovsky simply laughs at us. He does not even think we are people... In the past, masters fed their slaves, but the new masters do not bother."

In the past two years Yukos – the loss-making oil company that owns 51 per cent of voting shares in Yuganskneftegas – has reduced wages by 30 per cent, cut its drilling programme, and laid off about 15,000 people, reducing the workforce to 39,000. It has transferred the old Soviet social responsibilities to the municipal budget, in line with advice from western consultants.

But industry analysts fear Yukos's short-term approach is jeopardising the long-term interests of the oil giant.

"Khodorkovsky has killed the goose which was laying golden eggs," says Ivan Mazalov, a senior analyst at the broker Centreinvest.

Disgruntled investors claim Yukos milked money from Yuganskneftegas by using a mechanism known as transfer-pricing. Yuganskneftegas was obliged to sell all its oil at a fixed rouble rate to Yukos, which would then re-sell it at market prices and use the revenues as it saw fit.

The growing economic crisis has seen the pressure on Yuganskneftegas increase. Recently the company – the second largest in Russia in terms of oil production – had its telephones cut off because it had failed to pay its bills.

With oil prices falling, and Yukos reluctant to pay taxes to the Nefteyugansk authorities, tension in the town has escalated. Roads have been neglected, nursery schools have closed and hospitals handle only emergencies. Four months ago, Vladimir Petukhov, the mayor and a vocal critic of the oil company, was shot dead. His funeral turned into a protest demonstration against Yukos, one witness said.

Residents of Nefteyugansk long to cross the river. According to Vladimir Nozhin, chief engineer of Yuganskneftegas, the company has lost 700 top specialists to Surgutneftegas following the recent wage cut, but now Surgut needs no more workers. Whereas it is hard to sell a one-bedroom flat in Nefteyugansk for Rbs60,000, the same flat in Surgut would cost Rbs 200,000.

Surgut may not be prosperous by western standards, but its oil company is one of the few in Russia where workers have benefited from market reforms and display no signs of nostalgia for the Communist era. "Nobody here wants to go back to the Soviet days, to deficits and empty shelves," says Oleg Plaksin, a drilling master at Surgutneftegas.

In Nefteyugansk, that seems to be exactly what is happening.

Imported products which once filled the shopshave been replaced by old-fashioned glass jars filled with potato soup and preserved vegetables. "We took them off the shelves four years ago, but now we have nothing else to sell, so we put them back," said Olga, saleswoman at the proudly named Europa Tsentr (Europe Centre). Apart from its name, however, the shop is a spitting image of any Soviet supermarket.

"We have no sugar, no rice. God knows what we are going to eat in winter. There is no master in this town. We have the same resources as Surgut and look how we live," says Olga.

Zoya Nikolaevna, a pensioner in Nefteyugansk, often goes to Surgut to buy food. "I was in Surgut last week, they have 30 kinds of sausage there. But here the shops are empty – just like in the Soviet days."

Surgut's comparative prosperity is partly due to the president of Surgutneftegas, Vladimir Bogdanov, who until recently was criticised as an old-style Soviet-era manager with xenophobic views. But his hands-on style management has paid off.

Contrary to the advice of some western consultants, Mr Bogdanov continues to pay for schools and accommodation for his staff. In return he gets the loyalty of his workers, who have more faith in their management than in the central government.

"When you pay your workers and give them something to do they simply do not have time to talk about politics," says Andrei Atepayev, an energetic 38-year-old manager. "People start waving flags and slogans when they have nothing to do at work."

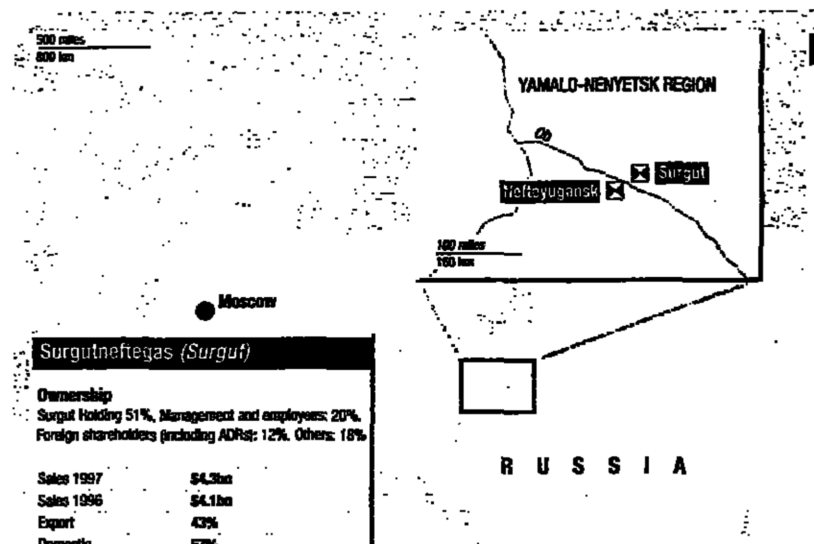
Not only are workers at Surgutneftegas happier, the company is investing up to $1bn a year in production and exploration and has among the lowest counts of idle oil wells of any Russian company in the sector.

"We always counted money here and never splashed out on fast cars and lavish offices. We did only what was economically prudent and as a result we are still drilling new wells, while most of our competitors have almost stopped," says Mr Atepayev.

Surgutneftegas is not an island, however. The company's investment programme could be jeopardised by the collapse of the banking system – it has $1.5bn locked in various Russian banks crippled by the government's default on its debt. It has also had to cut 1,000 jobs from its total staff of 68,600.

But such is the paradox of recent Russian history that it is Mr Bogdanov, a local "red" director, who has used his Russian know-how to build a profitable enterprise in which the workers are the most effective advocates of capitalist economy.

"Of course we can curse the government and complain about the crisis," says Tatyana Nikolaeva, who works at Surgutneftegas's nursery school, "but I always say to my staff – do not whine that it is dark in the room – turn on the light."



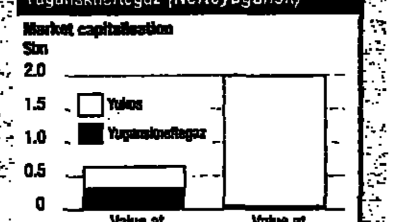
Surgutneftegas (Surgut)

Ownership
Surgut Holding 51%, Management and employees: 20%. Foreign shareholders (including ADRs): 12%. Others: 18%

Sales 1997	$4.3bn
Sales 1996	$4.1bn
Export	43%
Domestic	57%
Pre-tax profit for 1997	$812.1m
Pre-tax profit for 1996	$839.5m
Production	240m barrels
Estimated reserves	8.2bn barrels
Idle wells	17% (industry average 25%)

Sources: MFK Renaissance; United Financial Group; Brunswick

Yuganskneftegas (Nefteyugansk)



Ownership
Rosprom-Yukos (Mikhail Khodorkovsky): 38% overall stock (51% voting shares). Foreign shareholders (including Kenneth Dart, US industrialist: 28% of overall stock). Individuals: 12%, others: 22%

Rank in Russia (among E&P):	Production no.2 Reserves no.1
Sales 1997	$1.5bn
Sales 1996	$2.5bn
Export	34%
Domestic	66%
Pre-tax loss for 1997	$108.9m
Pre-tax loss for 1996	$58m
Production	187m barrels
Estimated reserves	8.3bn barrels
Idle wells	44% (industry average 25%)

Crisis in Russia could cause second Latvian bank to close

By Stefan Wagstyl in Riga

Latvia, which has already seen one bank close because of the Russian crisis, could soon lose a second, the Baltic state's central bank said yesterday.

Viktorija Bank, a small bank with 2m lats ($3.48m) in capital, had stopped trading and could close in the next few days if it did not refinance itself successfully, said officials. Kapital Bank has already closed.

Closure of Viktorija Bank, which officials said had still to be decided, would highlight the continuing impact of Russia's financial upheaval on Latvian banking.

The central bank this week warned that nine of the country's 29 banks may be more seriously hit by the Russian crisis than they have admitted. It said these banks had not valued their assets prudently due to a lack of clarity about Russia's debt repayment.

The nine exclude Parex Bank, the biggest, but include the next four biggest banks in size – Unibanka, Rietumu Bank, Rigas Komercbanka and Baltic Transit Bank. Rigas Komercbanka required central bank support a few weeks ago after it suffered a run on deposits.

Einars Repse, central bank governor, said while the bank would help ease liquidity shortages it would not support insolvent banks.

Banks had until March 1999 to recapitalise if necessary either by securing fresh funds or by mergers, said Mr Repse. The deadline is the last date when banks are obliged to publish balance sheets for the year ending December 1998.

Mr Repse said before that date the central bank would not discuss individual banks' positions any further though it was monitoring the industry. The central bank had previously said the industry's exposure to Russia is 170m lats ($296m), or some 8 per cent of total assets.

Mr Repse said if mergers were needed the bank would encourage consolidation. "Let them work and merge if they can. They know the deadline," he said. Bankers in Riga said consolidation was in any case necessary because Latvia had too many small banks, some of which were little more than investment vehicles for their owners.

However, central bank officials emphasised there was no threat to the Latvian banking system. Ilmars Rimsevic, deputy governor, said the combined capital adequacy ratio of Latvian banks was 20 per cent of assets at the end of 1997 compared with a legal minimum for individual banks of 10 per cent and an international norm of eight per cent. This could fall to 12-14 per cent by the end of 1998.

French officer accused of leaking secrets to Serbs

By Robert Graham in Paris

France has been caused considerable embarrassment by the arrest by Paris judicial authorities of a French officer on suspicion of passing military secrets to the Serbs.

Major Pierre Bunel was detained for allegedly giving the Serbs Nato documents on targets in Yugoslavia and the province of Kosovo.

His arrest comes while France is pressing to head a 1,500-strong protection force due to be based near the frontier with Kosovo. The force would safeguard the observers dispatched under the aegis of the Organisation for Co-operation and Security in Europe, to monitor the Serb withdrawal from Kosovo. The extent to which the withdrawal commitment is honoured will determine whether Nato holds back from its threat of air strikes.

Maj Bunel's arrest, which took place in Paris on Saturday, is the second case in six months where French military personnel have been revealed to have pro-Serb sympathies.

In April, it emerged that France had withdrawn Major Hervé Gourmelon, a liaison officer, from Bosnia after he had compromising contacts with Serbs. On that occasion, US officials alleged that plans to capture Radovan Karadzic, who is wanted on charges of committing war crimes, had been undermined by Maj Gourmelon.

Maj Bunel was chief of staff to the French general who serves as France's permanent representative on the Nato military committee in Brussels. As such, he would have access to "a wide range" of sensitive documents, according to those familiar with Nato.

Maj Bunel's lawyer said last night that although he had passed documents to the Serbs, he had not given them an exhaustive list.

Although news of the 46-year-old officer's arrest leaked out late on Monday, he is understood to have been first confronted with passing secrets to Serb agents in Brussels by French officials early last week.

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Angry French pig farmers win new aid

By Robert Graham in Paris

The French government has been obliged to find extra funds for the country's hard-pressed pig-farmers to head off a growing wave of countrywide protests over a collapse in pork prices.

The emergency aid of FFr150m ($27.2m) followed a meeting of the pig producers' federation and Jean Glavany, who took over the agriculture portfolio two weeks ago. In September the Socialist-led government had already agreed to provide FFr100m of aid to pig farmers.

Mr Glavany also said he would help co-ordinate a broader EU-wide initiative to tackle falling pork prices, which have more than halved in the past 12 months. From a high of almost FFr12 a kilo, French farmers are now getting FFr5.17 a kilo.

Jacques Lemaitre, head of the producers' federation, described the measures as a "breath of oxygen", but added: "What we want more than this aid are a set of measures to bolster the European market to push prices back up."

There are close to 20,000 pig farmers in France, with most of the industry in Brittany. Breton pig-farmers account for half France's annual 2.2m pork production, according to a ministry of agriculture official.

The Breton farmers have been in the forefront of an increasingly aggressive series of protests – from occupying local town halls to letting loose pigs in the streets and picketing supermarkets. Demonstrations are planned in four cities on Friday.

French farmers have boosted production considerably since the early 1990s. This has been to meet increased domestic demand after a switch away from red meat as a result of the "mad cow" disease scare, as well as satisfying growing export orders – notably from Russia.

But not only has France found itself competing against cheaper Spanish and Danish produce, but since August, pork exports to Russia, which had been running at 30,000 tons a month, have been halted because of the Russian financial crisis. Paris is expected to push for an EU initiative that permits the export under "special conditions" of up to 150,000 tons of pork to Russia.

Large-scale farmers are also being squeezed by growing pressure from environmentalists which may force them to spend large sums of money on cleaning up the pollution created by intensive pig farming. In Brittany several rivers and local water tables have been adversely affected by untreated pig effluent.

Gucci's ex-wife jailed for plotting murder

By Paul Betts in Milan

The Gucci murder trial that has gripped Italy for the past six months ended yesterday in high drama, when the former wife of Maurizio Gucci, the fashion heir, was found guilty of plotting his murder and given a 29-year prison sentence.

Mr Gucci, grandson of the founder of the Italian leather goods and fashion house, was shot in a gangland-style killing outside his Milan office in 1995.

Patrizia Reggiani Gucci, the 50-year-old divorced wife of the fashion heir, was subsequently arrested along with four othjers on charges of plotting the murder.

Mrs Reggiani denied charges of having commissioned the killing, but had admitted she wanted her former husband dead.

The Milan court yesterday also gave a life sentence to Benedetto Ceraulo, a Sicilian, accused of being the hired assassin.

He denied killing Mr Gucci and said after the sentence he was "only a small monkey in a cage", and would appeal.

Orazio Cicala, another Sicilian who acted as Ceraulo's driver, was given a 29-year prison sentence, while Pina Auriemma, a Neapolitan fortune teller, and Ivano Savioni, a hotel porter, were jailed for 25 years and 26 years respectively.

The fortune teller, a friend and "spiritual adviser" of Mr Gucci's former wife, and the hotel porter were accused of enlisting the hired killer for L500m ($305,000).

The Milan court's prosecutor had sought life sentences for all five defendants for the murder.

Yesterday's verdict represented the climax of the turbulent history of the Gucci family, whose fashion empire has since been sold and turned into a successful public company listed in New York and Amsterdam.

Maurizio Gucci had a stormy career, quarrelling with almost every relative in his attempt to control the group.

He severed all links with the family business in September 1993 when he sold his 50 per cent stake to Investcor, the Bahrain-based financial group, for $170m. Investcor subsequently restructured and floated the company.

He married Mrs Reggiani in 1972. They had two children, but were separated in 1984 and later divorced. Mrs Reggiani claimed she had been given "little more than a plate of lentils" in a L7bn divorce settlement.

Patrizia Reggiani, ex-wife of murdered fashion chief Maurizio Gucci, is escorted by police from a Milan court yesterday Reuters

Greek PM warns he will expel rebel MPs

By Kerin Hope in Athens

Greece's Socialist prime minister yesterday confronted growing opposition from within his own party over measures to deal with the rigours of joining the European single currency.

Costas Simitis' government suffered a sharp fall in support in local elections last month.

The election results were seen as a protest against unemployment and other social problems, including inefficiency and corruption in the police force and the state health system.

But before a parliamentary vote of confidence last night, Mr Simitis warned Socialist deputies they would be expelled from the party if they failed to back him.

With the Socialists holding 159 seats in the 300-member house, the government looked safe from defeat.

Mr Simitis reaffirmed the government's plans for tighter wage and spending policies next year in its bid to qualify for membership of the euro in 2001. Greece's political parties are united in the drive to win entry to the euro-zone. However, the prime minister has failed to persuade members of his own party, the Panhellenic Socialist Movement, that the government is doing enough to create jobs and protect the pay-as-you-go pension system.

Vassilis Kedikoglou, an independent Socialist deputy, echoed the views of many backbenchers when he accused Mr Simitis of being insensitive to social issues and failing to carry out structural reforms to ensure real economic convergence with members of the euro-zone.

Greece is becoming increasingly confident of achieving its timetable for joining the single currency. Having entered Europe's exchange rate mechanism in March, the drachma survived the Russian and Asian crises without coming under serious pressure.

Market turbulence has pushed up Greece's long-term interest rates, but the past three weeks have seen a fall of almost 200 basis points. Low international prices for oil and commodities will help cut the annual inflation rate to below 4.5 per cent this month, finance ministry officials said.

Next year's budget is expected to include tax cuts on new cars and electricity aimed at speeding the fall of inflation.

NEWS DIGEST

GERMANY

Industry body launches fresh attack on tax plans

The Germany industry association (BDI) yesterday launched a fresh attack on the tax plans of the new Social Democratic-led government as the finance ministry prepared to release a first draft tax bill. Ludolf von Wartenberg, BDI chief executive, said the measures being prepared to tighten up on tax reliefs used by business would read like a list taken from a "poison cabinet". Oskar Lafontaine (pictured left), the finance minister, plans a three-stage reform up to 2002, with the first stage taking effect from next year. Cuts in income tax would be financed largely through "counter measures" applying to industry. Overall a net tax reduction worth about DM10bn ($6bn) from 2002 is planned.

The finance ministry described as "unauthorised" lists in German newspapers of up to 72 counter measures which would affect industry. However, its plans are expected to include revised rules on the treatment of depreciation and companies' reserves, as well as the ending of tax breaks enjoyed by the well-off. **Ralph Atkins, Bonn**

EUROPEAN COURT OF HUMAN RIGHTS

Bid to speed proceedings

The Council of Europe inaugurated a streamlined European Court of Human Rights in Strasbourg yesterday which it hopes will deal faster with a rapidly increasing number of complaints.

"We're hoping the new system will speed up the procedure quite dramatically," said a Council of Europe spokeswoman. Under the old court system set up in 1950, rulings often took years.

The new court will also be working full time, unlike the old one, which opened one week a month and handled about 100 cases a year, the spokeswoman said. Already this year, 4,791 cases have been registered, the Council of Europe said in a statement.

Under the new system, a human rights commission which examined cases before they went to court will be scrapped so cases come before judges sooner.

The court rules on infringements of the 1950 European Human Rights Convention, which is signed by all 40 nations in the Council of Europe. Citizens from those nations can bring cases to the European Court after they have exhausted legal options in their home countries. The court has 40 judges, one from each of the member countries. **AP, Brussels**

ITALIAN COURT OVERRULES PARLIAMENT

Rights of defendants hit

Italy's parliament has suffered a serious blow to its sovereignty after the country's constitutional court overruled landmark legislation relating to the justice system that was enacted last year.

In a move that has been attacked by party leaders across the political spectrum, Italy's constitutional court has overruled legislation that protected the rights of defendants in a range of criminal trials relating to Mafia activity and political corruption.

Parliament last year passed legislation that made it impossible for courts to prosecute defendants on the basis of testimony that had been given before the start of trial proceedings. In a move to rebalance trials in favour of the defendants, parliament legislated that testimony from witnesses and defendants needed to be repeated in open court to be valid.

Italy's constitutional court has now overruled this change, amid fears from judges and prosecuting magistrates that the law would undermine investigations into figures such as Silvio Berlusconi, leader of the opposition, Bettino Craxi, former prime minister, and Mafia suspects. **James Blitz, Rome**

China curbs foreign life insurers

By James Harding in Shanghai

Foreign life insurance companies are facing further restrictions over their entry to the Chinese market following Beijing's signal that future operators in China cannot expect majority control of joint ventures.

Life insurers seeking access to China's huge potential market remain unclear about the changing regulations for foreign companies as the Chinese government has not issued formal guidelines.

But officials at the People's Bank of China, the central bank, have told companies seeking a licence to sell life insurance policies that approval will be given to 50-50 Sino-foreign joint ventures with a domestic insurer.

Hans-Joerg Probst, chief representative of German insurance group Allianz in Beijing, said: "The Chinese are not closing the door. But they are taking a little longer to get their own house in order first. They will not open it much further in the foreseeable future."

China has said the opening of its insurance market is at an experimental stage and, as a result, the terms of new licences have varied widely – one wholly foreign-owned subsidiary sells both life and non-life policies, while most life insurers are not allowed to operate a non-life business and have been limited to majority stakes in joint ventures with local Chinese companies.

Until now, most international companies have taken at least a 51 per cent share in a joint venture company in order to ensure management control. Foreign insurers have also gone into ventures with Chinese companies that are not insurance companies. The new guidelines, which were first set out to foreign companies in May, are not expected to be retroactive. Insurance companies, such as Allianz which already has a majority shareholding in a life insurance joint venture, should therefore not be affected.

But the companies most troubled by the narrower terms of entry are the scores of insurance companies with representative offices in China seeking an operating licence. "This is a mass market and China is afraid that it will be taken over by foreigners. This is a protectionist measure," says the head of one European insurance company currently applying for a licence.

"The rule was that foreign insurers could have 51 per cent and that meant foreign insurers could have management control. Now, they are saying it has to be 50-50 and at least one of the partners has to be a domestic insurer. That means we have limited space to play as there are very few domestic insurers out there. It makes things more restrictive."

Another European company says the situation is infuriatingly opaque. The company's chief representative believes the 50-50 terms for joint ventures have not yet been fixed and hopes the Chinese leadership may still consider allowing foreign majority ownership of life insurance joint ventures.

However, other firms have been dismayed by the signals that it will be even harder to get into the Chinese market, which has anyway opened only a tiny fraction to foreign companies and limited their operations to Shanghai, the testing ground of liberalisation in the insurance market.

EU and HK in piracy accord

By Louise Lucas in Hong Kong

The European Union and Hong Kong yesterday signed a co-operation agreement to crack down on drug trafficking, piracy and other customs offences. It is the territory's first international customs agreement since it reverted to Chinese sovereignty in July last year.

Jacques Santer, European Commission president, signed the agreement during a meeting with Tung Chee-hwa, Hong Kong's chief executive.

"The agreement significantly enhances the status of Hong Kong as a separate customs territory and gives concrete expression to Hong Kong's wide-ranging autonomy in trade and customs matters, as set out in the Basic Law [the territory's post-handover mini constitution]," said Mr Santer, who was in Hong Kong on the last leg of a trip to China.

Mr Santer said the co-operation would help in the fight against fraud and copyright piracy. Videos, compact discs and CD-Roms are widely available within moments of originals arriving; factory crackdowns in Hong Kong have been frustrated by offenders moving operations to nearby Macao or to southern China.

Hong Kong authorities have launched a number of initiatives to beef up enforcement of piracy rules, and in the first nine months of this year swooped on a total HK$1.4bn (US$180m) worth of pirated goods. For the whole of last year the value of seizures was HK$187.38m.

On Monday, Hong Kong customs smashed a syndicate engaged in smuggling pirated video discs from Macau into the territory. Officials made four arrests and seized HK$10m worth of pirated video discs.

Recording industry estimates say around one-third of Hong Kong's CD manufacturing capacity could be churning out unlicensed goods; in China, the level is sharply higher.

While the crackdowns are helping to reduce this, the economic climate is exerting pressure in the opposite direction. The Asian financial crisis, combined with excessive manufacturing capacity, is seen by the recording industry as likely to force CD manufacturers into illegal production in order to survive.

Philips, Sony head for slower start in CD wars

By Alice Rawsthorn in London and Gordon Cramb in Amsterdam

Philips and Sony, two of the world's largest consumer electronics companies, plan to launch their Super Audio-CD new music system in late 1999, several months after the introduction of the rival DVD-Audio format.

Cor Boonstra, Philips' president, said he was convinced the Philips and Sony system would offer "superior sound quality" to DVD-Audio. He said he expected the first players to go on sale "at the end of next year."

Toshiba, Matsushita and the other electronics companies involved with the development of DVD-Audio are equally adamant that they have the higher quality format.

Koji Hase, general manager of DVD for Toshiba, said he expected the technical specifications for DVD-Audio would be agreed early in the new year and the first systems would be sold "in the middle of 1999."

Unless a compromise is reached, DVD-Audio and Super Audio-CD seem set for a repetition of the damaging "format war" between the rival VHS and Betamax video cassette technologies.

The music industry is anxious to avoid a format war. It has high hopes that either DVD-Audio or Super Audio-CD will become a mass market product, and provide a sorely-needed stimulus to record sales, as the compact disc did in the early 1980s.

Rivals Toshiba and Matsushita expect sales of their system to start several months earlier

Record companies are concerned consumers will be so confused by the introduction of two similar formats at roughly the same time, that neither will catch on.

Sony and Philips found themselves pitted against the rest of the electronics industry three years ago over the development of DVD-Video, the video version of DVD technology. Eventually, the two sides agreed to join forces and develop a joint format.

Both the electronics and music sectors hope that a similar agreement can be struck over DVD-Audio. Mr Boonstra said there was "constant communication" between the two factions, but did not speculate on the chances of a settlement.

Mr Boonstra also declined to comment on whether Philips intended to launch an MPeg3 recorder, the controversial new audio product used to find, store and play music downloaded from the internet. He said: "MPeg technology is terribly important to us, and we are very strong in the recordable compact disc market, that's all I will say."

The US music industry recently took legal action to stop The Rio, the first mass market MPeg3 recorder, from going on sale. It lost the case and is now appealing. The Rio is to be sold at mainstream US retailers, including Best Buy, for $199 and in UK chains such as Dixons and PC World for £165 later this month.

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Wisdom of Baku pipeline queried

By Robert Corzine in London

British Petroleum, one of the biggest foreign investors in Azerbaijan's oil industry, has questioned whether Baku needs to make an early decision on building a politically contentious main oil pipeline to Turkey.

Sir John Browne, BP's chief executive, yesterday said the company "has a very big interest" in any decision President Heydar Aliyev might make regarding an export pipeline. BP and Amoco of the US, which are due to merge by the end of the year, hold a combined 34 per cent stake in the Azerbaijan International Operating Company (AIOC), which would be the main user of the pipeline.

US and Turkish officials have been lobbying strongly for a line from Baku to Ceyhan on the Mediterranean coast, even though oil industry executives say it would be the most expensive way to export crude.

Washington believes such a pipeline would underpin the economic and political independence of the former Soviet republics bordering the Caspian Sea. But US officials have ruled out direct financial support for construction, which could cost up to $4bn.

Mr Browne said the Ceyhan option only made sense if further exploration in Azeri waters boosted the country's proved reserves by a billion barrels, or if "free money" was offered by governments to build the line.

He said the 300,000 barrel-a-day pipeline under construction between Baku and Supsa on the Black Sea coast of Georgia was "enough" for current Azeri needs.

He also noted that a decision in favour of Ceyhan could reduce Azerbaijan's eventual oil revenues because of higher costs. The AIOC consortium is expected to recommend that the BakuSupsa line be upgraded to handle additional exports.

NEWS DIGEST

MOTOR INDUSTRY

Europe must change its ways, warns Ford chief

Europe must make big changes to its ways of doing business and cut costs or it will only survive through outright protectionism, according to Sir Alex Trotman, chairman of Ford, the world's second largest motor company.

"The cost of almost every aspect of doing business in Europe, from telephone calls, through air travel and water charges to the social overheads of labour, is way, way too high," Sir Alex said. "Europe will have no choice but to resort to full-scale protectionism unless all its industries are made much more subject to real competition," he added. Air travel charges, in particular, were "ludicrous".

However, even if substantial cost-saving changes were made to Europe's business infrastructure, competitive pressures and motor industry over-capacity would leave the region with only two big car makers within a decade or two, said Sir Alex, who retires at the end of the year.

While declining to name the two likely survivors, Sir Alex said that in the wake of Daimler-Benz' takeover of Chrysler it was "quite likely" that at least one large European producer could be forced into a merger or be taken over next year, particularly "if collectively the US and Europe manage to talk ourselves into a recession not warranted by the economic fundamentals." **John Griffiths, London**

BANGKOK TRANSPORT CONTRACT

Hopewell pursues claim

Hopewell Holdings, the Hong Kong-based infrastructure group, said yesterday it would go outside Thailand in its quest for compensation following the cancellation of the Bangkok Elevated Road and Train System (Berts) contract.

Gordon Wu, chairman of Hopewell, said efforts to resolve the issue with the Thai government had proved fruitless, leaving it no other option but to pursue its claim outside Thailand. The unilateral cancellation of the contract sent a bad signal which others would be watching, he added.

"Multilateral agencies like the IMF and the World Bank enter into contracts to commit large amounts of money to governments. All parties enter into contracts to record legally what they agreed, and to provide a level of commitment that allows them to invest large amounts of money with confidence. **Louise Lucas, Hong Kong**

JAPANESE TARIFFS

US concern on fish and timber

The US has warned that Japan's refusal to implement voluntary tariff cuts in fish and forest trade could threaten the success of the forthcoming Asia Pacific Economic Co-operation (Apec) summit. Mark Fisher, US deputy trade representative, said the summit would be "viewed as a failure" if Japan refused to participate in those areas.

Mr Fisher said Shoichi Nakagawa, Japanese agriculture, forestry and fisheries minister, had told US officials that it would be "very, very difficult" for Japan to follow through on a commitment made last year at the Vancouver Apec summit to liberalise fishery and forest product trade. Washington, however, maintains the view that it would be "inexcusable" if Japan did not follow through the voluntary tariff cuts. **Reuters, Washington**

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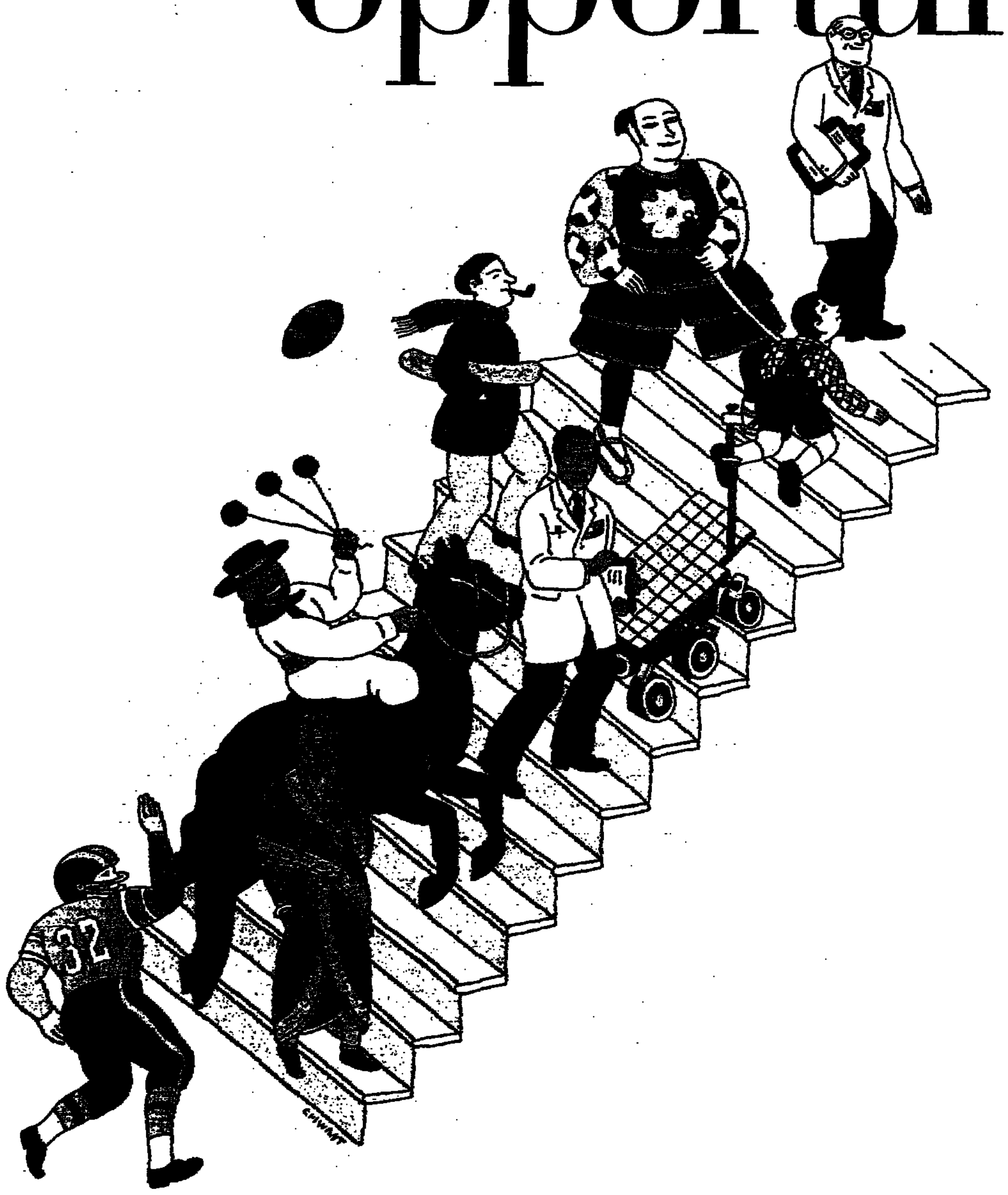

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Malaysia to tackle stockbrokers' debt

By Sheila McNulty in Kuala Lumpur

Malaysia's Securities Commission yesterday announced a scheme to tackle the debt problems burdening the country's stockbrokers, under which a government vehicle will take on from banks the non-performing loans of the stockbroking industry.

Danaharta, the asset management company established to restructure the heavily indebted banking system, is to make its initial acquisitions within the next six weeks. It expects these efforts to facilitate industry-wide recapitalisation and consolidation.

"This will, in turn, allow for a refocusing of lending activity to the stockbroking industry in general, while reducing the likelihood of a forced sale of stockbroking companies and their assets," the Securities Commission said. It added that the move was prompted by the "inadequate progress" by brokers in response to its call for voluntary recapitalisation and consolidation. It did not reveal the amount of loans to be purchased. But analysts point to years of free-wheeling lending for the purchase of shares as one of the problems overwhelming banks. "The domestic broking industry needs an overhaul, just like the banks," said Lai Tak Heong, research head at SG Securities.

Over the past year, the Securities Commission and the Kuala Lumpur Stock Exchange have attempted to strengthen the stockbroking industry by imposing trade restrictions on close to a dozen houses, directing mergers and acquisitions and implementing a reimbursement scheme for broker clients. The Securities Commission said brokers under trading restrictions had been given one month to submit proposals to regularise their financial positions. Those negotiating to restructure or dispose of stockbroking companies have been given deadlines to submit their proposals.

Analysts said foreigners who once considered buying into Malaysia's brokerage sector had been put off by the capital controls and stock market restrictions imposed in September. The rule preventing foreigners from repatriating profits from the sale of stocks until they have held them for a year has drastically reduced foreign interest in the once-thriving stock market.

After watching the key index plunge around 75 per cent with the regional financial crisis, Malaysian investors have only now started returning. The sharp drop in interest rates, combined with capital controls restricting the movement of funds offshore, has convinced them to take their chances on getting higher returns in the market.

The Finance Ministry announced yesterday that the amount needed by Danaharta to remove the non-performing loans from the banking system had been reduced to M$15bn (US$3.9bn) from the previous projection of M$25bn due to an improvement in equity and lower interest rates.

Mahathir fails to muffle strident voice of reformers

Thousands of Malaysians have found the courage to channel protests through press and the internet. **Sheila McNulty** reports

Protesters display the title of their Reformasi movement in a recent Kuala Lumpur demonstration AP

As the skies opened on protesters calling for the resignation of Malaysia's prime minister, Mahathir Mohamad, last weekend, they sought shelter under copies of the once shunned "Harakah" newspaper of the country's marginalised opposition.

The symbolism was telling. Amid a torrent of pro-government propaganda in the mainstream media, the newspaper of the PAS Islamic party has become the refuge of the *reformasi* movement to reform Dr Mahathir's administration.

They hold it up at rallies demanding justice for Anwar Ibrahim, whose summary dismissal as deputy prime minister, nine-day incommunicado detention and alleged beating in police custody have suddenly made the repression of basic institutions during Dr Mahathir's 17-year rule too flagrant for many to ignore.

"The case has thrown up a lot of questions that relate to fundamental liberties in a democratic society," says Saliha Hassan, a political science lecturer. And yet the government-controlled media have done their best to muffle them with coverage of Dr Mahathir's version of events.

Dr Mahathir fired Mr Anwar on September 2 for having "low morals". Mr Anwar is now on trial for 10 counts of corruption and sodomy, which he insists were trumped up in a conspiracy to punish him for gaining enough popularity to challenge Asia's longest-serving leader.

Thousands have taken to the streets in unprecedented protests against Dr Mahathir – a man who, just months ago, they were afraid to criticise publicly. This is a country where university students are barred from involvement in politics and no more than five people can gather without a permit. It is also a place where anyone can be detained without trial – as Mr Anwar originally was – under the draconian Internal Security Act for being deemed a threat to national security.

With headlines such as "Can undergraduates think?" and "Abuse of the Internal Security Act", the Harakah newspaper is rousing a nation used to the "Mahathir says..." headlines that dominate the mainstream media.

Emotional commentary by people confessing they have finally found the courage to break through Malaysia's "culture of fear and silence" and call for Dr Mahathir's resignation has sent its circulation surging from 65,000 before the political crisis to close to 300,000. This is the same as the reported weekday circulation of the country's most influential daily, Utusan Malaysia.

The government has noticed. Zulkifli Sulong, Harakah's editor, says the Home Ministry, which Dr Mahathir heads, called him in to remind him Harakah newspapers are only to be sold to PAS members from news stand racks clearly marked: "For PAS Members Only". "They know they cannot compete openly. That's why they resort to these underhanded tactics," says Fan Yew Teng, a social activist and writer.

Even if the authorities suspend Harakah, as they have other newspapers in the past, they cannot keep independent reports from emerging. Mr Anwar's supporters have established over a dozen web sites to tell his side of the story. Some give detailed accounts of police firing chemical-laced water while chasing and beating them for demonstrating. They also make clear why they are putting their case for Mr Anwar on the internet.

"If you are interested in the views and arguments of those opposed to him, click on the word 'exit' below and start your search," is the opening message at a site called *Anwar Online*. "Better still, subscribe to these newspapers: The New Straits Times, The Malay Mail, Berita Harian, Utusan Malaysia, The Star and The Sun, and watch the news on Malaysian TV."

The authorities already tried restricting Malaysian activity on the internet. Months ago they detained several people for sending e-mails about rumoured instability in Malaysia. But the flow of potentially destabilising messages on the internet is now too considerable to staunch.

Dr Mahathir's people have counter-attacked with web sites of their own. And they are taking their propaganda directly on to the streets. This past week they strung trees around the capital with signs against protesting.

"Do not disturb the peace" and "We're thankful that Malaysia is a fortunate land" read two of the slogans above more than 100 people chanting for the resignation of Dr Mahathir.

A television station dispatched crews with mini cameras to keep them undetected by demonstrators. Some journalists – worried about a backlash – travelled incognito.

The boos with which the mainstream media were met as public opinion first turned against Dr Mahathir descended into violence just over a week ago. Demonstrators pelted the van of the country's most influential news group with stones, breaking its windows and sending the journalists speeding off into the night.

Zaini Hassan, news editor of the Utusan Melayu, was in that van. But the attack will not make him tone down the pro-government coverage he insists is crucial during these uncertain times. "We want to neutralise the situation," he says. "We don't want to create havoc." But after years of repressing their yearnings for change, that is a position many Malaysians no longer want their media to take.

Pressure grows on Indonesia military

By Sander Thoenes in Jakarta

Members of Indonesia's powerful military provoked massive riots across the country last May, an independent fact-finding commission concluded yesterday. It also urged the government to investigate two senior officers, including the son-in-law of former president Suharto.

The conclusions of the team of 18 human rights activists, officials and public figures, which was asked by the government to investigate simultaneous riots in six big cities, added force to a public calls for a curb on the military's influence on Indonesian politics.

The team concluded that "instigators, including members of the armed forces" had incited the city's poor to attack and loot shops and houses of the ethnic Chinese minority for two days. More than 1,000 people died in the mayhem, mostly looters who burned to death in blazing shopping malls.

It said both Lt Gen Prabowo Subianto, the son-in-law of Mr Suharto, and Maj Gen Syafrie Syamsuddin, Jakarta military commander, should be investigated for their role in the riots. So far Mr Prabowo has been investigated and honourably discharged for kidnapping political activists, but the team recommended he be court-marshalled for this as well.

The commission chairman, Marzuki Darusman, said that at least 66 women, most members of the ethnic Chinese minority, had been raped and 14 sexually assaulted during the riots. But the team had failed to clarify whether the attacks had been planned or were excesses of the mayhem.

Mr Darusman said the team had not tried to verify allegations that Mr Suharto and Feisal Tanjung, chief commander of the armed forces at the time, had ordered Mr Prabowo or Mr Syafrie to create the mayhem as an excuse for introduction of emergency rule and a crackdown on student protests.

The team urged the government to crack down on paramilitary gangs. It said Pemuda Pancasila, a racketeering gang closely affiliated with Mr Suharto, had organised riots in Medan and may have played a big role elsewhere as well.

The military's role in the riots has has dented public support for its dominant role in politics. The Moslem PPP party has backed public calls for the abolition of the allocation of 75 parliamentary seats to members of the military.

The dominant faction of Golkar, the government party, along with the military and regional factions, is likely to block such proposals, but reduce the number of seats to 55.

Chinese forex curbs delay payments

By James Harding in Shanghai

China's efforts to tighten controls over foreign exchange have started to delay payments to foreign companies selling goods into the country and disrupt the trade finance business of international banks.

Beijing has introduced a series of stringent measures since September, intended to clamp down on illegal foreign exchange transactions that threaten to undermine confidence in the Chinese currency.

But several foreign financial institutions and importers have begun to report that the tougher restrictions have resulted in delays and non-payment of letters of credit, creating a further obstacle to imports into China as well as fresh cause for concern for bankers.

Foreign bankers in Xiamen, the port city on China's south-east coast, say the local courts have issued injunctions against Chinese banks to stop payment on letters of credit, while the authorities investigate what they believe are fake import documents.

"A lot of companies are involved in illegal trade and there is a major concern about the loss of foreign currency," said the head of one international bank in Xiamen, which is counterparty to a letter of credit (LC) that has been frozen by the local courts. "Eventually, the banks will have to honour the LCs. But it is a disruption to the LC business... and some importing companies will experience a delay in payment."

The chief representative of another foreign bank in Xiamen, who is also lobbying to lift an injunction on an LC payment, said he understood there had been about 25 similar injunctions in the city this year. The intervention of the courts has unnerved foreign banks and trading companies, which treat letters of credit as a standard tool of commerce intended to ensure swift and safe payment between trading partners. Under the internationally observed Uniform Commercial Practice, which set out the terms and treatment of letters of credit, the law courts should not generally interfere with LC payments.

A senior official at the Xiamen branch of the People's Bank of China, the central bank, said there had been just a handful of injunctions. "Some Chinese banks have received orders from Chinese courts, asking them to stop paying. Some Chinese companies are suing domestic and overseas companies for cheating them out of their money."

In addition, trade finance is being interrupted or delayed by new demands on banks to get approval from China's foreign exchange authorities before issuing certain types of LCs.

Gavin Bacon, partner at Simmons and Simmons in Shanghai, said: "The need for all these approvals is slowing up the wheels of commerce, which might well persuade China's trading partners to look elsewhere."

Separately, China's courts have increasingly issued injunctions on letters of credit payments – contrary to international practice – in order to shield Chinese companies unable or unwilling to pay for imported goods that they say fail to meet the conditions of sale, according to one representative of a foreign bank hit by the intervention of the legal authorities. This raises concerns about the health of some of China's trading companies.

In one case spanning Shanghai and Beijing, the courts have issued injunctions this year stopping payments on 20 letters of credit worth in excess of $70m.

The new foreign exchange rules were adding to the existing problem, one foreign banker in Shanghai said, suggesting the delays and disruption of LC payment was sapping confidence in China's respect for standard practice in international commerce. "Letters of credit and trade are one of the most basic issues in finance," he said.

Arrests over currency purchases

China has arrested several people in connection with a $36m foreign exchange fraud, writes James Harding.

Two officials from the Guangdong Xinhui Tourist Development Company, which is based in southern China, are alleged to have made false import declarations to buy foreign currency illegally, according to a report yesterday in the Shanghai Securities News.

The purchases were made through a foreign trade company in central China between October 1996 and June 1998, it said.

One of the more common types of foreign exchange fraud has involved companies in China using falsified customs documents to gain authorisation to transfer hard currency overseas to pay for the import of goods that it later emerged never existed.

Vietnam's military asserts economic role

By Jonathan Birchall in Hanoi

Vietnam's defence minister has reasserted the military's commitment to playing an important role in the Vietnam's economy and called for the army to set up special "economic defence" zones to promote development in border areas.

General Pham Van Tra's view, published yesterday in the Communist party daily, Nhan Dan, was the latest in a series of public statements by the Vietnamese army defending its economic role. It contrasts sharply with recent moves by China to reduce the business activities of its armed forces.

General Tra, who is also a politburo member, said that the army's economic activities over the years had boosted national economic growth, created consumer commodities and exports, and in some cases contributing to market-opening. "Taking part in socio-economic building and development, while promoting strategic national defence, is a key political objective of the army," he said.

The Vietnamese official press has recently stressed efforts by the army to streamline its business activities, with the number of military companies reportedly having been cut to just under 200, a third of the former total, during a restructuring drive in 1995-96.

But while Vietnam often follows China's lead on social and economic policy, there is no sign of efforts to restrict the military's business activities, which military experts believe could provide around $600m of revenue this year. Last month, the prime minister approved a plan for a new national conference centre in Hanoi, which will be owned by the Ministry of Defence; the military's telecommunications company, Vietel, has also just been given permission to become the country's fifth internet service provider.

In addition, the Vietnamese military has more than 50 joint-ventures with foreign companies, and frequently provides land for projects with no military content. The Vietnamese navy, for example, is a minority partner in the proposed $80m Saigon Marriot Hotel with Japan's Kotobuki Holdings. The Vietnamese air force is also involved in the Saigon Superbowl shopping and entertainment complex, built by Singaporean investors on land adjacent to the city's airport.

The army's role on the borders, and control of its own port facilities, has led to suggestions of military involvement in smuggling and corruption; in another press interview published yesterday, General Tra said the armed forces' activities in border areas were limited to forestry and fishing.

TECHNOLOGY SETBACK FOR TOP US BANKS

Smart card pilot plan abandoned

By John Authers in New York

A group of the largest US banks and card issuers has abandoned ambitious plans to roll out smart cards across the US, in a significant setback for attempts to introduce the technology in the world's largest economy.

The group announced yesterday that the biggest smart card pilot scheme yet attempted in the US was to close at the end of this year, without extending from its initial base in Manhattan's Upper West Side.

All the equipment which had been installed with retailers is to be removed.

Citibank and Chase Manhattan, New York's two largest banks, and the MasterCard and Visa bank card associations, had combined on the pilot scheme, which was launched in October last year amid heavy publicity.

But the scheme's participants conceded yesterday that use of the cards by consumers had not come up to expectations, and that merchants had pressed for a simpler operating system.

The banks had hoped to introduce the smart cards – which use embedded microprocessors rather than the traditional magnetic stripe – across the US.

While the scheme was first launched as a six-month "pilot", participants had hoped that it would swiftly be extended.

At MasterCard, employees were banned from using the word "pilot" to describe the scheme. Instead, they were told, it was a "roll-out". MasterCard's hope was that it would then be extended to the rest of New York, and then to other large US cities.

Instead, Upper West Siders have been given until the end of next month to use up the cash balances on their cards. Then the hardware installed in retailing outlets throughout the area will be removed.

Future smart card projects in the US will probably use a different system.

A central concept being tested by the system was "inter-operability" or the use of both the MasterCard Mondex and the Visa Cash systems using the same mechanical readers on shop counters.

The two systems worked, but they required different procedures from shop assistants, and Visa reported that this proved to be unpopular with merchants.

According to Carole Lockie, who was in charge of running the scheme for Visa, there was an analogy with early acceptance of credit cards. Pressure from merchants ensured that all credit cards could be operated using the same equipment, and following the same procedures.

Another problem was "critical mass". The logos for cards became a common sight in the Upper West Side, but Ms Lockie said merchants were disappointed by usage because many Upper West Siders spend most of the working day outside the area.

Mike Tempora, head of US smart cards for MasterCard, said future pilot schemes would be in areas with a much more tightly defined geography, such as university campuses and government buildings.

They would also add extra functions to basic cash payment, such as operating as library cards or access cards for buildings. "What we've learnt is that you really have to make it relevant to someone's everyday life and define it very clearly," said Mr Tempora.

Gates tapes shed little light on facts

By Richard Wolffe in Washington

As the Microsoft monopoly trial took a scheduled break yesterday, lawyers in the landmark antitrust lawsuit were assessing the impact of the videotaped evidence of Bill Gates, chief executive and founder of the world's largest software company.

In spite of the legal battles over their public airing, the videotapes of Mr Gates' pre-trial testimony appeared to shed little light on the disputed facts. Mr Gates' persistent quibbling over the meaning of his prosecutors' questions – including such words as "sell", "compete" and "relationship" – evaded the most thorny questions posed by his prosecutors.

Even when confronted by his own e-mails, Mr Gates sidestepped the issue of his own role in shaping Microsoft's strategy towards Netscape Communications, the internet software rival, and Apple Computer, the personal computer pioneer.

However, government lawyers believe that his evasive performance and "astonishing lack of recall" reinforced an overall impression that Microsoft was failing to give a consistent account of actions towards competitors.

For example, Microsoft changed its attack several times against Jim Barksdale, Netscape's chief executive and the government's first witness. First, it said Netscape had simply imagined the events of a meeting in which Microsoft allegedly sought to carve up the market in internet software. Then Microsoft claimed Netscape had sought to set up the company, with an eye to winning government support for legal action.

Lawyers from the US Justice Department and 20 states were keen to air Mr Gates' testimony about Apple Computer before the cross-examination of a senior Apple executive began today. Apple accuses Microsoft of abusing its monopoly power to bully the company on two issues.

The most dramatic accusation is that Microsoft forced Apple to agree to an August 1997 deal in which Microsoft invested $150m in the company *in exchange for a series* of agreements. According to Apple, Microsoft threatened to cancel development of crucial business software – including word processing and financial spreadsheets – unless Apple agreed to its demands.

Along with a resolution of patent disputes, Apple agreed to break its favourable relationship with Netscape and place Microsoft's products as the preferred internet software on its computers.

The second bullying charge revolves around Apple's internet software, QuickTime, designed to create and play back multimedia content.

Apple claims that Microsoft sabotaged QuickTime by introducing clashes with its best-selling Windows software.

Microsoft's lawyers have tried to convince Judge Thomas Jackson to dismiss the Apple claims as "extraneous" to the lawsuit. However, the Microsoft case is hindered by e-mails from Mr Gates and other Microsoft executives which strongly suggest that the company's dealings with Apple were indeed shaped by the bigger battle with Netscape.

Friendly nerd shown as combative and edgy

By Louise Kehoe in San Francisco

Microsoft trial

If Bill Gates cannot be present in person at an important computer industry conference or trade show, he often makes a pre-recorded video presentation.

But the content and style are always very different from the recording shown in a Washington courtroom this week, where Microsoft is on trial facing anti-trust charges.

Mr Gates usually plays the friendly nerd – a technical wizard, a visionary and, of late, an advocate for greatly simplifying the complexities of computing.

But the Bill Gates seen making a deposition before government lawyers this week was edgy, evasive and sometimes combative. He seems wary of being trapped and is defiant in refusing to acknowledge the plain meaning of some of the lawyer's questions.

In a two-hour segment of the deposition, shown on Monday, he appeared irritated by the relentless questioning. He rocked back and forth and fidgeted nervously.

Showing the videotape was an attempt by the government to "sensationalise" the trial, Microsoft charged. Legal consultants hired by the company played down its significance, describing it as the "ordinary deposition of an extraordinary man".

However, government officials said the testimony was vital to understanding Microsoft's intentions: some questions in the deposition related closely to the testimony of the government's next witness – a senior executive of Apple Computer.

Still, the unflattering portrait of Mr Gates painted by the video showed a side of the Microsoft chairman rarely seen in public even if, to those who have spent time with him, the style was no surprise. In interviews, he is often argumentative and combative. He frequently challenges the knowledge and intellectual stamina of interviewers and responds negatively to what he considers "trick questions".

Indeed, in the deposition he is more restrained than when speaking in a less formal meeting. On the video he appeared to hold back from temptations to tell the government's lawyers they had failed to understand the workings of his company or industry.

He did not allow himself to accuse them of being unreasonable. Neither does he ask them, in typical style, how technical they are – a frequent rhetorical question aimed at interviewers.

Renowned, among computer industry executives for his sharp tongue and temper, Mr Gates – in the segment shown so far – remains controlled and attentive in spite of frequently repeated, detailed questions.

And the government's tactics could backfire. With several more hours of video expected to be shown, the Justice Department runs the risk of making Mr Gates appear to be the victim of its lawyers' interrogations.

There is also the possibility that Microsoft may, after all, call Mr Gates to the witness stand toward the end of the trial, when it presents its rebuttal to the government's charges – an occasion when the friendly nerd may try to charm the judge.

Gates: testimony 'vital to understanding Microsoft's intentions'

On the web today

● Hurricane Mitch claims 7,000 lives ● Antigua to sign legal treaty with US ● Cardoso to unveil jobless plan ● Venezuela's disgruntled voters ● US economy 'still healthy' ● Hungry unions seek N American expansion

http://www.ft.com/americas

Colombia attack on eve of talks

By Adam Thomson in Bogotá

Colombia's leftwing guerrillas have inflicted their most damaging defeat on the national police, just days before they are due to start peace negotiations with the government.

Unofficial reports suggest there may be as many as 70 policemen and 10 civilians dead, with a further 45 policemen kidnapped by the Revolutionary Armed Forces of Colombia (Farc), following the rebel group's attack on the town of Mitu, close to the border with Brazil.

Yesterday, however, authorities had still not released an official death toll. Teddy Tornbaum, director of the Colombian Red Cross, who travelled to Mitu when the fighting broke out, said there were too many dead for an accurate body count. All communications have been cut since Sunday when an estimated 700 guerrillas descended on the town, according to police.

Yesterday, 130 additional troops were flown into the area to back up an original force of 220 police and soldiers who were sent in on Monday to recover the town.

The bloodiness of the attack and its timing – three days before Farc is due to begin peace talks with President Andres Pastrana's recently elected government – call into question the rebels' desire for peace. Few observers doubt that the *order to attack Mitu came* from the top of Farc's line of command.

Mr Pastrana, who was forced to cut short a two-day visit to Venezuela, where he was due to meet the main candidates in December's presidential elections, said the latest wave of violence would not jeopardise the talks.

The president has already made a significant concession to Farc by withdrawing soldiers and police from five municipalities in the south of the country.

Former military ruler to stand in Nigerian election

By William Wallis in Lagos

Olusegun Obasanjo, Nigeria's former military ruler, ended months of speculation yesterday when he announced he would seek nomination as a candidate in next February's presidential elections.

The retired general made the announcement at his chicken farm outside the commercial capital Lagos, where he was surrounded by supporters touting his "unique qualities" to manage the delicate transition from dictatorship to civilian rule.

Gen Obasanjo distinguished himself in 1979 by becoming the only military head of state in Africa's most populous nation and leading oil producer to hand over power to an elected civilian government.

More recently he became one of the most prominent victims of the latest and most brutal of the country's military regimes, serving three years in prison on charges of plotting a coup. It was the death of the late dictator Sani Abacha in June that paved the way for his release and a new transition to democracy under the Gen Abdulsalami Abubakar who has restored some optimism in a country ruined by corruption and mismanagement.

His decision to bid for the presidency follows his decision last week to join the People's Democratic party (PDP), the most broadly based party to have emerged recently.

It also follows, he said, weeks of painstaking deliberation in which he was bombarded by conflicting advice by dignitaries across the country on whether to take up the challenge.

Supporters say that as a former soldier, he is well equipped to handle the restructuring of an army that has been in power in all but 10 of Nigeria's 38 years of independence, and thereby stave off the threat of future coups.

At the same time they say he would satisfy the clamour for a power shift from the north of the country which has dominated the military government to the traditionally marginalised south.

His candidature has been endorsed by some heavyweight political leaders in the Moslem north. Ironically, however, it is among his own ethnic group the Yoruba, in the south-western region of the country that he is likely to face the stiffest resistance.

Yoruba advocates of radical change and devolution in Nigeria see Gen Obasanjo as overly influenced by the north in general and the army in particular. They see his candidature as the effective continuation of military rule.

Heckled by journalists addressing these controversies after his address yesterday he said: "You have to be realistic in Nigeria. If you want a Utopia it will not be this side of eternity."

Before he can run for president Gen Obasanjo will have to beat off other aspirants at a PDP party congress next month and in doing so risks splitting the party.

Gen Obasanjo in 1978 before he became Nigeria's only military ruler to hand over to an elected civilian government AP

Hopes of preserving a village's religious harmony go wrong

Egyptian police resorted to torture in a murder hunt, inflaming feelings they were meant to soothe, reports **Mark Huband**

Police commander Abdel Hafiz sipped tea from a large mug and denied all the accusations made against his officers. Nobody had been suspended from the ceiling fans. No electric shock torture had been carried out. There had been no beating of children, and nobody had been strung upside down by their ankles from the window frame.

But personal testimonies and a report by the Egyptian Organisation for Human Rights (EOHR) describe how between mid-August and mid-September the police station in this Upper Egyptian farming village of Al Kosheh and the nearby police station of Dar al-Salaam were the scene of mass arrests, torture, and brutal collective punishment as part of a murder inquiry.

"The police took me, and then they took my sons," said Boctor Abu Al-Aymeen. "They hung me up by my feet from the window frame."

Sitting in the crowded office of Al-Kosheh's Coptic church, Mr Boctor said he was held for 34 days, blindfold, often strung up by his ankles, beaten with fists and sticks. He was tortured with electric shocks to his genitals and ears, and heard his family threatened with rape unless he confessed to murdering two Copts in the village on August 14.

Mr Boctor's 11-year-old son Michael was subjected to the same treatment, and at one point was attached to a ceiling fan which was then switched on until he lost consciousness.

The official explanation for the police reaction to the murders remains vague. The EOHR believes police decided the killing of the two Copts would have damaged Moslem-Christian relations if a Moslem had been found guilty. Consequently, officials decided a Copt should be found guilty, the EOHR inquiry concluded. The investigation which followed now appears to have shattered the very relations the authorities were apparently trying to preserve, without even finding those guilty of the murders.

"The police took my 14-year-old daughter to the fields," Mr Boctor said. "They placed her in front of her brother, and threatened to hang him up like Jesus Christ." His daughter was not the youngest victim of the alleged brutality. The 17-month-old son of another suspect, Gamal Shukrallah, was held up by the crowd in the church office and a series of bruises across his backside revealed.

"That was from electric shocks. And there are others even younger who had the same treatment," said Morees Shukrallah, the boy's father. He himself had been detained for 19 days after being accused of the murders. During his detention in the Dar al-Salaam police station, he says, he was hung upside down, beaten and subjected to electric shock torture, while his wife and son were forced to look on.

During the month-long investigation, the police are estimated by church officials, villagers and the EOHR to have detained 1,200 people of all ages, many of whom were tortured.

The impact of the mass arrest and brutal treatment of villagers in an area which, the residents say, has never been affected by such trauma, has been to shatter whatever trust there may have been between civilians and the police.

"There was never any problem between the Copts and the Moslems here," said Amba Wissah, Bishop of Sohag. "This action was not anti-Christian. It was anti-humanity. The church has gone to the government to expose the problems that the people are facing. But there's no response." During the period of the investigation Bishop Wissah sent letters to senior government officials alerting them to the police practices, but he received no replies.

"I shall try to do something, to bring the police to court. But I feel very sad. The human rights organisations come and do their reports, and then nothing happens," he said. A list of written questions on the case submitted to the Interior Ministry has so far been met with silence.

"The government tried to ignore the problem during the events," said Mohammed el-Ghamri, EOHR executive director. "Torture inside police stations has become a tradition in Egypt. The police officers see that it's easy to get information from people by torturing them. In el-Kosheh the problem came about because of the torture. Murders in that area are quite normal."

Human rights lawyers are now awaiting a report on police interrogation methods, which is being prepared by the Sohag public prosecutor. Only the prosecutor can decide whether to bring a criminal case against police officers. However, lawyers for the Centre for Human Rights Legal Aid (CHRLA) believe they may be able to bring a civil case and demands for compensation.

"If we get the right names of the police officers it might be possible to have the prosecutor take action," said Gasser Abdel Rezak of CHRLA. But the lawyers are convinced the government would like to forget the whole incident in order to avoid inflaming sectarian conflict, of a kind which may now have arisen because of the police strategy.

"The police cursed our religion, and said we had no religion," said Adel Arsal, the brother of one of the murdered men, who was held for 40 days and interrogated along with the hundreds of others. His anger at the insults reflects the upsurge in emotions which the villagers say they had rarely felt in the past.

NEWS DIGEST

US FEARS FURTHER POSTPONEMENT

Netanyahu again delays vote on Palestinian deal

Benjamin Netanyahu, Israel's prime minister, yesterday again postponed a special cabinet meeting to vote on last month's new interim accord with the Palestinians, amid growing US concern that the date for implementing the deal will be further delayed.

Mr Netanyahu said the cabinet would not convene until the Palestinians put in writing a pledge to arrest 30 suspected killers of Israelis, of whom 10 are serving in the Palestinian police force.

A senior Israeli government official said the Palestinians verbally agreed at the Wye Plantation summit to arrest the suspects as part of a detailed security timetable to combat terrorism. The implementation of that timetable would be spread over three months and coincide with Israel's phased troop withdrawal from 13 per cent of the West Bank.

Earlier this week, the Palestinians presented their timetable to US officials, who deemed it adequate. Washington then passed it to the Israeli government. Mr Netanyahu, however, rejected the Palestinian plan, insisting any timetable include when the 30 suspects would be arrested.
Judy Dempsey, Jerusalem

ISRAELI ECONOMY

Foreign investment drops

Israel's economy suffered a double blow yesterday with the release of figures by the Bank of Israel showing a sharp decline in foreign investment and an increase in government debt.

Foreign investment fell 65 per cent during the second and third quarters of this year, totalling only $730m, compared with $2.1bn in the corresponding period in 1997.

The Tel Aviv Stock Exchange has been hard hit as well, with financial investment falling from $1.5bn to $330m over the same period as foreign investors remain reluctant to return to emerging markets following the Asia and Russian economic crises.

As a percentage of gross domestic product, government debt jumped 3.5 percentage points in real terms over the past nine months, to 107 per cent, or Shk380bn ($89bn). The Bank of Israel blamed the slowdown in the economy and the depreciation of the shekel. **Judy Dempsey**

CZECH RADIO BROADCASTS

Iran and Iraq lodge protests

Iran and Iraq have protested over the Czech government's decision to allow Radio Free Europe/Radio Liberty, the US Congress-funded radio station, to produce local language programmes from Prague.

Iraq has warned that the broadcasts, which began last week, will hurt trade relations. Iran has recalled its ambassador for consultations and has frozen trade ties.

The Czech government was hesitant to permit the radio programmes and forced RFE/RL – whose headquarters is in Prague – to abandon plans to use a residential house, which it feared could become a terrorist target.

The programmes, which are made in Prague, are broadcast from transmitters outside the Czech Republic.
Robert Anderson, Prague

CONFEDERATION OF BRITISH INDUSTRY CONFERENCE ROAD TRANSPORT SECTOR CALLS FOR FUEL TAX AND VEHICLE DUTY TO BE CUT

EU commissioner backs hauliers' plea

By Juliette Jowit in Birmingham

Neil Kinnock, European Union transport commissioner, yesterday supported calls from UK hauliers for fuel tax and vehicle duty to be reduced in line with other EU countries. "Until that happens the UK hauliers will continue to bear the burden to the disadvantage of themselves and to the economy," he added.

He also supported calls from delegates at the annual conference of the Confederation of British Industry for urgent UK government action and more funding to tackle high transport costs and congestion costing companies "billions of pounds a year". The CBI is the UK's principal employers' organisation.

Mr Kinnock, a former leader of the UK Labour party, said delays to infrastructure improvements were a "false economy" which damaged businesses and jobs.

"Britain's congestion bill is over £20bn ($34bn) a year and rising," he said. "Despite the costs, the reality is that delay in developing essential infrastructure is a false economy. It disables commercial and social activity, it adds to operational and environmental burdens and it reduces productivity, and eventually the job has to be done at a higher price."

Mr Kinnock urged the government to maximise benefits of increased investment with supporting measures such as road tolls.

John Allan, chairman of the CBI's transport policy committee, said businesses could not afford to wait for the government to implement promises to invest in infrastructure and measures to tackle congestion.

An extra £2.5bn investment a year was needed for transport, two thirds from state funds, in particular to increase rail freight capacity and efficiency to ease pressure on roads.

He repeated calls for cuts to fuel tax and vehicle excise duty, which road hauliers claim is helping overseas rivals operating from cheaper European neighbours. "Taken together these costs will put a huge burden on business and could seriously damage UK competitiveness," he said.

● The government yesterday launched a scheme to build stronger links between the Foreign Office and industry. Robin Cook, foreign secretary, said he was setting up a series of six-month exchanges between staff at his department and at the CBI.

Mr Cook said he would send some of his "top flight" officials to the CBI and would help organise seminars across the UK to help boost the partnership. The Foreign Office will also hold an open day for business next year, targeted at small and medium sized firms.

"Talking together is good, but working together is an even better way to promote mutual understanding," he said. "I want staff at the CBI to know first-hand what the Foreign Office can offer, and I want my staff to know what business needs," Mr Cook said at the CBI conference.

Life after redundancy brings analyst a sense of balance

With job losses hitting world financial centres, a former US bank executive tells **Alison Maitland** of his fulfilling existence

The Bentley Turbo, bought "for a laugh" in the 1980s, has long gone. So have the earnings which once hit £500,000 ($845,000).

But John Hewitt, former head of Citicorp Scrimgeour Vickers, the US bank's ill-fated venture into securities in the City of London, has found ample compensation for the loss of the high life. Since Citicorp closed the operation in 1990, he has thrown himself into "good works" and dabbled in business.

With the latest wave of job cuts spreading gloom through the world's financial centres, Mr Hewitt's experience illustrates that life after redundancy can be just as fulfilling, if not more so.

"The City was all-consuming. You'd be having dinners or meetings in the evening. You never had time to look at the outside world," he says. "I loved the ritzy hotels. I liked gambling and drinking. But I always quite fancied a balanced life."

Mr Hewitt, once a top-ranking retail analyst, can easily envisage what might have been. Paul Roy, who ran Citicorp Scrimgeour Vickers with him before joining Smith New Court, is now head of global equity markets at Merrill Lynch – which itself has just cut 3,400 jobs.

"When Paul is whizzing off to New York for a major oil company merger, I occasionally think: I could have done that," says Mr Hewitt. Heaving another log on an enormous bonfire in his garden, he laughs: "This is when I think I'd rather be working for Merrill Lynch ... But then he doesn't have time to walk the dogs through the woods, which is one of the great joys. There is a price to pay for high earnings."

Mr Hewitt's transition from the City was considerably eased by the handsome sum he made as a partner in Scrimgeour Kemp-Gee when it sold out to Citicorp in 1984. He had long been determined not to die in the job: "It was a good life, but I never felt I'd been put on earth to be a stockbroker."

Now 52, he says he earns a twentieth of what he was paid 15 years ago.

"Some people would find that horrible and awful. But I quite like it. There are excesses in the City and among high-flying business people." He chairs a hospital trust, does voluntary work and fund-raising, and has investments in a local health club and a small inventions company.

Many headhunters and career counsellors take the view that redundancy can be a catalyst for good.

"Losing a big job in the City allows senior people to think about the fundamental direction of their lives, which they rarely have a chance to do in the hubbub of work," says Stephen Bampfylde, managing director of Saxton Bampfylde Hever, the executive search firm.

George Mauzé, who runs the Wall Street office of Lee Hecht Harrison, a career management consultancy, expects the current downturn to bring the biggest across-the-board job losses since the early 1990s. But he does not believe financial workers need be very pessimistic.

"At the time, people can't see the good that can come out of it. But it can often be a very liberating experience."

Dog days: John Hewitt has left the frantic pace of the City behind him David Ahmed

The opportunity to achieve a really rewarding new lifestyle after redundancy does not depend on high status and substantial resources. Stephanie Clark worked for Bankers Trust in Manhattan for 16 years. Then she lost her job as a middle manager in the securities back office operation four years ago.

After career counselling and a year off, she opted for a job in private industry where "I can see my contribution making more of an impact". At 41, she is enjoying the 09h00 to 17h00 life as office manager for Blumex, a Dutch-owned flower business on Long Island.

Mr Hewitt is keeping his options open and has "thought vaguely" about a short-term return to the financial world. He plans a three-month walk along the pilgrim route to Santiago de Compostela in north-west Spain to ponder his next move.

NEWS DIGEST

'AIR RAGE' CONFERENCE

Airlines ban man accused of attack on stewardess

A man accused of attacking an air stewardess with a broken bottle was yesterday shunned by international carriers as industry chiefs met at London Heathrow airport to discuss the growing threat of "air rage". Steven Handy has been banned from travelling with all UK airlines, Airtours said.

Unemployed Mr Handy, 37, is accused of attacking Airtours stewardess Fiona Weir, 31, on a flight from London Gatwick to Malaga in Spain last Friday. He has been bailed by a Spanish court.

The stewardess from Wimbledon, south-west London, needed 18 stitches after being hit over the head and cut on the arms and neck with a broken vodka bottle. Delegates at a UK Flight Safety Committee conference sent the best wishes of the aviation community to her.

The conference was considering whether to recommend a nationwide blacklist of disruptive passengers. It would list those convicted of assaults against air crew or endangering flights, and could be used by any flight operator to deny trouble-makers access to aircraft. Airtours said its lifetime travel ban on Mr Handy had encouraged other airlines and Hoverspeed to follow suit. "We approached every major airline in the UK and all Spanish carriers and all our colleagues at those airlines; they are all backing the ban," an official said. Airtours also wants UK railway companies to join in.

PRIVATISED RAILWAY COMPANIES

Operators' punctuality still poor

Poor punctuality and high levels of cancellations on the privatised railways continued throughout the summer in spite of pressure from the government and the rail franchising director. Performance in the three months to mid-September was little changed on the preceding quarter but was worse than in the same quarter of 1997, John O'Brien, the franchising director, said in his latest report today.

In spite of this failure to improve services, the train operators still received £2.7m ($4.6m) in incentive payments in the quarter and £6m in the year to date – roughly half the amounts paid in the comparable periods last year.

"Overall there has been no notable improvement in operating performance on the network and punctuality has continued to decline year on year," said Mr O'Brien. "Over the last three months, performance has shown little change." **Charles Batchelor, London**

FINANCIAL REGULATION

Advisers fined $296,000

Interdependence Limited, a network of independent financial advisers, was fined £175,000 ($296,000) by the Personal Investment Authority yesterday and ordered to pay £47,000 in costs. The action follows the company's failure to carry out its review of pensions mis-selling cases adequately.

The PIA has now fined 219 firms – mainly IFAs – a total of £5.4m for not conducting their mis-selling reviews to its satisfaction. **Christopher Brown-Humes, London**

Senior minister cools enthusiasm over euro

By David Wighton, Political Correspondent

The economic conditions may never be right for Britain to enter the single currency, a senior cabinet minister said yesterday, apparently reversing the government's more enthusiastic stance on the euro.

Jack Cunningham, the minister responsible for co-ordinating government policy, declined to endorse the line taken on Monday by Peter Mandelson, the chief trade and industry minister, that joining the euro was a matter of "when" not "if".

Asked on BBC radio if it was inevitable that the economic conditions would eventually be appropriate for sterling to join, Mr Cunningham said: "They may not, of course."

Mr Cunningham insisted that the position on the single currency had not changed in spite of the shift in tone detected by business leaders in speeches by Mr Mandelson and Gordon Brown, the chancellor of the exchequer, on Monday.

Mr Mandelson told the Confederation of British Industry, Britain's largest employer's organisation: "We have made clear that we will join the single currency when it is in Britain's economic interests to do so."

Mr Mandelson later stressed that he was only restating the government position set out by Mr Brown a year ago.

But the apparent change of emphasis was reinforced by Mr Brown's announcement of a cross-party parliamentary committee to review preparations for economic and monetary union.

The committee will work alongside the standing committee on preparations set up by the chancellor a year ago. The standing committee last week studied a draft of the government's changeover plan which is understood to envisage a transition period that could last until 2005. But business leaders believe Britain could move faster to full membership of the single currency.

Adair Turner, the director-general of the CBI, said the period between the fixing of the sterling-euro exchange rate and the introduction of notes and coins could be reduced to about 18 months from the 3½ years which the first-wave countries are going through.

The draft changeover plan being studied by the Treasury says there would have to be a 40-month delay between the announcement of government plans to hold a referendum and the introduction of euro notes and coins. That suggests that the transition period could last until 2005.

Sir Clive Thompson, president of the CBI, this week called for the government to set a date for a decision to join the single currency.

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Digital TV group may offer cheap phone calls

By Cathy Newman in London

On Digital, the group owned by two British independent television companies, is considering offering cut-price telephony as part of its 30-channel digital terrestrial television service.

The group, which launches in under a fortnight and transmits via roof-top aerials, is to hold talks with cable operators about the idea. It would hope to introduce cheap telephony sometime next year.

The move would make On Digital more competitive with British Sky Broadcasting, the satellite company which last month started broadcasting a 140-channel digital service.

Cable operators have driven subscriber numbers by offering packages of television channels and cheap telephony. NTL, the UK's third biggest cable company, would be a natural partner for On Digital.

NTL owns a third of S4C Digital Networks, another digital terrestrial television operator, and has built the transmission network used by On Digital.

Unlike most other cable companies, NTL has a national telephone network, so it would be able to offer cheap telephony to On Digital's customers nationwide.

However, On Digital is believed to be keen to explore the plan with others such as Cable & Wireless Communications, the UK's biggest cable company.

BSkyB has experimented with offering customers a low-price phone line through British Telecommunications, but it has not marketed the service. Subscribers to BSkyB's trial telephony offering, SkyDial, receive a separate bill from BT's, whereas cable companies combine phone and television charges in one invoice.

● UK commercial radio companies are to start using the internet for the buying and selling of advertising slots on local stations in an effort to boost their £400m annual advertising sales, writes John Gapper.

The commercial radio companies, led by groups such as Emap and GWR Group, believe they could boost their relatively small share of the total display advertising market by making it easier for agencies to buy radio advertising.

The Radio Advertising Bureau, which represents commercial operators, is investing £500,000 in an internet project that will allow radio sales houses to trade electronically with buying agencies representing advertisers.

Although radio advertising has grown strongly in the past five years – and reached £100m in the third quarter of this year, according to new figures – sales are limited by the fragmentation of the industry.

British Council seeks new head

By David Buchan in London

The British Council, the body which promotes Britain's image and culture outside the UK, yesterday started its search for a replacement to David Drewry, who resigned at the weekend after only 10 months as director general.

Baroness Kennedy, who chairs the British Council board, is to head a board subcommittee to search for a successor to Mr Drewry who quit after a clash with senior managers and board members over staffing policy.

The British Council has 6,000 staff in 110 countries including the UK and a budget of £412m. One third of this is a subsidy from the Foreign Office, while much of the rest is income from teaching English.

The organisation is being run on a temporary basis by Tom Buchanan, one of four senior managers whom Mr Drewry sought to remove from their jobs.

Mr Drewry's proposed personnel changes were part of his effort to give the organisation a new direction in line with the new image sought for Britain by the government.

But his attempt to move four of the council's five senior managers at one time – described by one insider as unprecedented – backfired and he was forced to backtrack.

A statement issued over the weekend said Mr Drewry, a geologist, felt he had completed the first stage of his strategy review and it was now appropriate for him to return to academia.

Mr Drewry was previously director of science and technology at the Natural Environmental Research Council.

Mr Drewry was said to have found difficult the political manoeuvring involved in running such a large organisation with a strong board partly made up of MPs from the major parties and in satisfying the various lobbies with an interest in the British Council – higher education, the Foreign Office and governments outside the UK.

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PRE-BUDGET REPORT FORECASTS SCALED BACK BY 'EVERY COUNTRY, EVERY CONTINENT, EVERY INTERNATIONAL FINANCIAL INSTITUTION'

Chancellor paints gloomy world picture

By Vicki Bakhshi in London

Gordon Brown, UK chancellor of the exchequer, yesterday delivered his pre-Budget statement with worries about the world economy clearly weighing on his mind.

A sharp reminder of the global slowdown came at the beginning of his statement to the House of Commons. The international financial turmoil, Mr Brown said, had "forced every country, every continent, every international financial institution to cut their estimates for growth".

World trade growth, he said, was set to fall by two-thirds this year, and a quarter of the world was now in recession. The new official estimate for output growth in the UK next year is 1 to 1.5 per cent, down from the 1.75 to 2.25 per cent forecast in the Budget in March.

Mr Brown stopped short of pressing the Bank of England for further interest rate cuts. He even sent a subtle warning to Labour MPs who have been hinting that rates should be lower. "I do not believe that any political party ... will, on reflection, bring party politics and short-termism back into interest rate decisions," he said.

Elsewhere in the world, growth forecasts have also been cut. The International Monetary Fund estimates that world output growth this year will reach only 2 per cent compared with its forecast of 4.25 per cent last October.

The European Commission recently cut its 1999 growth forecast for the euro zone from 2.6 per cent to 3.2 per cent.

But Mr Brown and his Treasury team are predicting that Britain's economic slowdown will be short-lived. Output growth is forecast to reach 2.25 to 2.75 per cent by 2000, and 2.75 to 3.25 per cent by 2001. That is comfortably above Britain's trend rate of growth, estimated at 2.25 per cent by the Treasury.

These more optimistic forecasts may reflect a growing feeling that the worst of the global turmoil may soon be over.

Mr Brown has been at the forefront of efforts to reform the international financial system. This culminated in last week's statement by the G7 group of countries, which included a plan for precautionary credit lines for countries in trouble, as well as a commitment to maintain domestic demand growth and measures to improve transparency.

The statement added to perceptions that the West's policymakers are at last reacting to the crisis. The two cuts in US interest rates were crucial in improving market sentiment.

The decision by the US Congress to vote through the $18bn International Monetary Fund quota contribution relieved worries that the IMF was running out of money. And fears about a crisis in Brazil are receding, following the announcement of a fiscal package and the establishment of the new IMF fund.

Talk of a world depression is muted, and investors are slowly moving back to riskier assets. Western stock markets have risen sharply over the past month, and in Asia financial conditions have improved considerably.

But significant uncertainty about the international outlook remains. Further contagion cannot be ruled out, the fallout for Western financial institutions may not be over, and the lack of a credible macroeconomic policy in Japan remains a worry.

Whether the UK can meet its growth forecasts over the coming years – and, therefore, whether the rosy estimates for the public finances will be fulfilled – will depend on whether the international economy really is hitting bottom.

Principal points from Gordon Brown's speech

FORECASTS:

Inflation to hit 2.5% target for next few years

Public spending to be £2bn ($3.4bn) below forecasts this year

Budget surplus £5.5bn this year

Debt repayment £1.5bn this year

Growth of 1-1.5% in 1999, of 2.25%-2.75% in 2000 and 2.75%-3.25% in 2001

Current surplus to be £1bn next year, £3bn in 2000-2001, £8bn the year after and £10bn and £11bn in the next two years

- **EDUCATION:** Tax relief for businesses that second staff to schools and colleges
- **SHARE OWNERSHIP:** Review of ways to encourage staff to hold shares in their companies
- **CORPORATE TAXATION:** Further corporation tax cut for small businesses considered; temporary investment allowance may become permanent; merger of Inland Revenue and Contributions Agency
- **CREDIT:** Review of ways in which banks can boost business access to finance
- **COMPETITION:** Bolster Office of Fair Trading
- **INNOVATION:** Possible tax credit for small business based on R & D investment; endowment of up to eight new Institutes of Enterprise in British universities
- **VENTURE CAPITAL:** Review of how to encourage investment in start-ups and boost availability of funds
- **EMPLOYMENT:** Extension of New Deal to 28 further areas in Britain, and to all in Northern Ireland who have been unemployed for over 18 months
- **NATIONAL INSURANCE:** From April, no employers' NI payments on earnings below £83 a week
- **CHILDCARE:** Tax credit to cover all children up to 14 years old and disabled children up to 16
- **NATIONAL (STATE-RUN) HEALTH SERVICE:** Extra £250m this winter

Focus on 'competitiveness' in danger of missing the mark

The view from industry is that the government needs to be doing more that will encourage business to help itself, writes Kevin Brown

It is easy to poke fun at the notion of economic competitiveness. As Howard Davies put it when director-general of the Confederation of British Industry, the term had passed from academic jargon to cliché without an intermediate phase of meaning.

Nevertheless, Gordon Brown seems convinced that competitiveness is a serious issue. Improving Britain's competitiveness, he said yesterday, was essential if the country was to be at the forefront of the coming knowledge-driven international economy.

He used the related term "productivity" 12 times in his half-hour speech (three times as often as "prudent", usually the chancellor's favourite buzz-word).

The chancellor's recommendations appear to be the product of a series of Downing Street seminars attended by dozens of business executives, government officials and ministers, and a blockbuster report released last week by McKinsey Global Institute, the research arm of the management consultancy. Later this month, the government will issue its first policy paper on competitiveness.

It all sounds important but what does competitiveness mean? There is surprisingly little coherent discussion behind the hand-wringing.

John Major, the Conservative prime minister who oversaw three policy papers on competitiveness between 1994 and 1996, described the first of the series as a "comprehensive national survey of Britain's competitive position against that of our leading trading rivals".

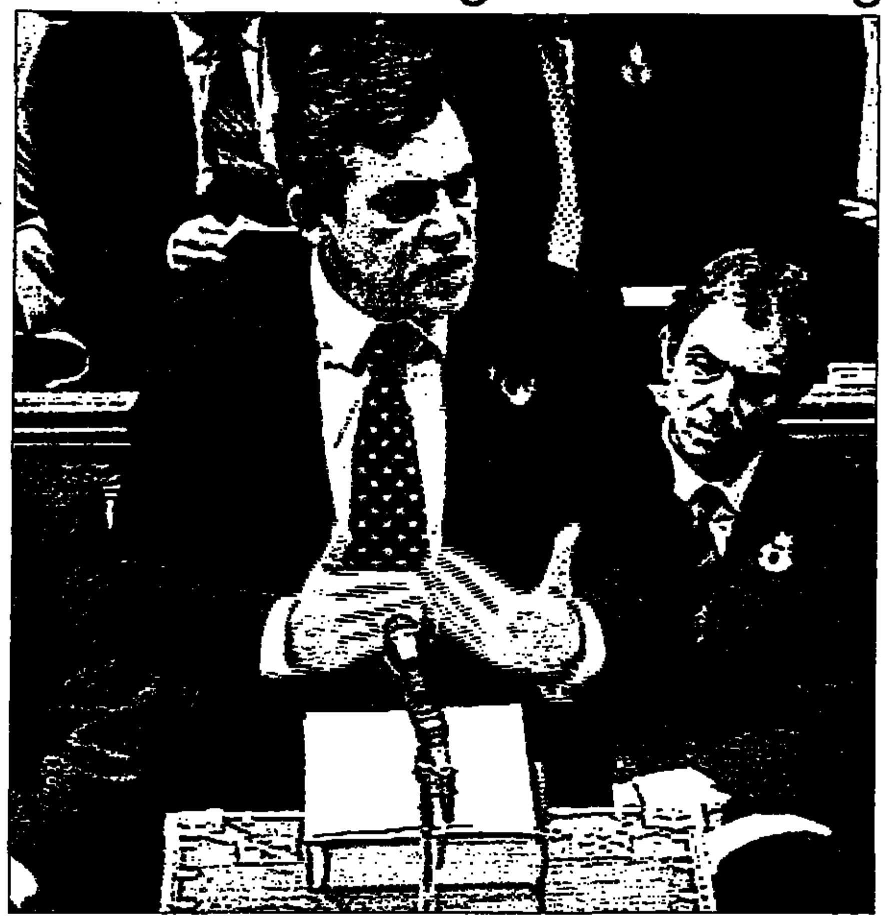
The signs are that the present government is thinking along similar lines, even though there are strong grounds for believing the approach is flawed. Professor Paul Krugman, professor of international economics at the Massachusetts Institute of Technology, says most people make the mistake of believing that international trade is like business competition writ large.

"Trade between countries is so much unlike competition between businesses," Prof Krugman says, "that many economists regard the word competitiveness, when applied to countries, as being so misleading as to be essentially meaningless."

Countries with relatively low productivity specialise in areas in which they have a comparative advantage; low productivity does not necessarily stop countries from being successful in international trade. Prof Krugman points to the example of British exports after the second world war, which were equal in dollar terms to those of the US, even though UK labour productivity was at the time only half that of the US.

David Kernohan, industrial policy adviser at the Engineering Employers' Federation, says this is why UK exports have held firm over recent years, in spite of a "persistent and subtly dangerous obsession" with the nebulous concept of national productivity. "The UK has a considerable labour cost advantage," Mr Kernohan says.

Lower labour productivity makes British workers cheaper to employ than their counterparts in countries such as the US and Germany. So the UK employs less capital and more labour. This reinforces relatively low labour productivity, but does not affect the UK's ability to trade internationally.



Premier Tony Blair watches Gordon Brown warning MPs about "global financial instability"

The UK, says Mr Kernohan, could become more productive overnight by employing more capital and paying fewer workers higher wages. "Is unemployment and the consequent high social cost structure really what the government wants?" he asks.

Even those who think the productivity gap matters are not sure how big it is.

The McKinsey report, eagerly awaited by the Treasury, estimated that UK labour productivity was 37 per cent lower than productivity in the US, and 26 per cent lower than in France or western Germany. But McKinsey also estimated that capital productivity in the UK was substantially higher than in France and western Germany, and only 10 per cent lower than in the US. The report concluded that "total factor productivity", which measures all the inputs of production, was only 26 per cent lower in the UK than in the US. Compared with France and western Germany, the UK trailed by 13 to 14 per cent.

That is still a substantial gap. The question is whether is reveals anything meaningful. Measuring productivity is so difficult that economists argue constantly over the accuracy of any figures.

Research by Neil Blake and Paul Robson for the London Business School suggests that manufacturing productivity may have grown more than five times faster in the four years to 1997 than official figures suggest, because of mismeasurement of the changing workforce.

Kate Barker, chief economic adviser to the CBI, was sufficiently worried about the statistical problem to issue a warning at this week's CBI conference. "Frankly, data of this type can only give a broad indication," she said. "There are inevitable measurement problems."

There are other complications, too, such as the different picture that emerges if international productivity comparisons are adjusted to account for different working environments. For example, UK workers produce less in each hour than Americans, but they work longer each day. "When we think about catching up," says Ms Barker, "we need to think about what underlies these gaps, and therefore which features of other economies we want to emulate."

So are UK ministers wasting their time in putting so much emphasis on productivity? Not necessarily. At the level of the whole economy, the concept may be too slippery to use. But at the level of the individual company, it is vital.

Adair Turner, the CBI's director-general, says there is a high short-term price to pay for productivity improvements, as it inevitably raises unemployment. Nevertheless, he says the long-term gains are worth it.

The government should do everything it can to remove impediments to productivity growth, such as tax systems that discourage investment, Mr Turner says. It can also change the economic environment to encourage entrepreneurs. But what it can do best is to back self-help programmes, such as a programme run by the big five motor manufacturers and the Society of Motor Manufacturers and Traders.

The results can be spectacular. The SMMT's series of masterclasses, run by engineers from Japan and Germany, typically cut the number of rejected parts by 75 per cent, and had an equally dramatic impact on equipment effectiveness.

Yesterday, Mr Brown set out the broad parameters within which the government thinks it can improve competitiveness. Mr Mandelson will fill in many of the gaps in his policy paper. But the view from industry is clear: stop frightening the horses with scary international comparisons, and start doing more to help industry help itself.

Ex-regulator to lead review of banking sector

By George Graham, Banking Editor

Don Cruickshank, the former telecommunications regulator, is to lead a review of the UK banking industry which will focus on the financing of small business, but is expected also to look more broadly at the level of competition in the sector.

Gordon Brown said he had asked banks to work with Mr Cruickshank "to assess what steps can be taken to more effectively serve the needs of businesses in the economy".

Senior bankers, including Alan Moore, deputy chairman of Lloyds TSB; Lord Tugendhat, chairman of Abbey National; and Jon Foulds, chairman of Halifax, were summoned to the Treasury yesterday to be briefed on the review by Stephen Byers, chief secretary (a junior minister). He urged the banks, with an economic slowdown in prospect, to be careful in their dealings with small business.

But bankers, who had feared they might come under attack, said they were encouraged by the Treasury's recognition that the relationship between banks and small businesses had improved substantially since the last recession.

"We think this is a very positive move," said Derek Wanless, chief executive of National Westminster Bank, the largest bank in the small and medium business sector with an estimated market share of 26 per cent.

"Any downturn would clearly be a challenge for both banks and businesses in the UK. We welcome this early opportunity to work in partnership with the government to ensure we continue to provide responsible and innovative support for our business customers in more difficult times."

A Treasury statement said the review would be "genuinely open-minded". "The government has no pre-determined view on what options, if any, the review may recommend."

Tim Sweeney, director-general of the British Bankers' Association, said: "It is most encouraging that the chancellor recognises the positive effects of competition in banking markets and in particular the improvement in the relationship between banks and small firms since the last recession."

During the past five years, the Bank of England has been working to improve the mechanisms for financing small business. It has encouraged a shift away from the use of overdrafts – which are repayable on demand.

Government bond supply to decline

The supply of UK government bonds is set to decline to its lowest level in years as a result of yesterday's statement, **Edward Luce and Khozem Merchant** write. The UK's debt management office yesterday cancelled a planned £5.2bn gilt auction scheduled for next March following the reduction in the government's borrowing requirement.

This means that total gilt issuance for 1998/1999 will fall to £8.6bn, compared with £20bn in the fiscal year ending last March.

Lower debt issuance triggers a rise in the price of existing debt. However, economists said gilt issuance would probably rise in the next fiscal year due to the downturn in the UK economy.

Gilt prices rallied after the pre-budget statement. The future on the 10-year gilt closed 0.97 points higher at 115.01. Sentiment was also lifted by short-term interest rate reductions in Sweden, Spain and Portugal.

Forecast for output growth dubbed optimistic

By Christopher Adams, Economics Staff

Gordon Brown's prediction for output growth of between 1 per cent and 1.5 per cent in 1999 was labelled optimistic by City of London economists, many of whom are projecting much lower rates of growth.

For 1998, the Treasury is predicting that gross domestic product will grow by 2.75 per cent, slowing from 3.5 per cent last year.

Mr Brown warned in March that a deterioration in the Asian financial crisis could result in a sharper slowdown in the UK as bilateral trade with Asia suffered and exporters struggled with stiffer competition from there. However, the rapid spread of financial turbulence to other emerging markets and the scale of economic turmoil in Latin America, south-east Asia and Russia has taken most forecasters by surprise.

Adam Cole, an economist at HSBC in London, said the downturn forecast by the UK Treasury was too shallow. "The overriding factor is that the global environment is going to remain gloomy. There's not a case for growth turning round in the following years." The UK is further along the economic cycle than most other developed countries. It emerged from recession before its western European neighbours, which have only now begun to experience the stirrings of strong growth.

The previous Treasury forecast for GDP growth in 1999, announced in the March Budget, was 1.75-2.25 per cent. At the time, this was an upward revision from the prediction six months previously. Consumer demand was buoyant and monetary policy was being tightened to enforce a necessary slowdown.

The relative strength of sterling, stemming both from strong economic growth and the recent tightening in monetary policy, has deepened the effects of the global slowdown by making UK-based exporters of manufactured goods less competitive. The pound has risen 14.6 per cent against a trade-weighted basket of currencies since June 1996.

The effect of the currency's appreciation is most visible in the balance of payments, the difference between exports and imports plus net flows of investment income.

In the March Budget, the Treasury anticipated a deterioration in the current account. Yesterday it said the current account would move from a surplus of £8bn in 1997 to a deficit of £1.75bn this year, a bigger swing but a smaller deficit than forecast previously.

It added that a recent easing in the exchange rate would help UK export growth recover from 2000. The current account deficit would stabilise at about 1 per cent of GDP, modest by historical standards.

● Ian Peters, director-general of the British Chambers of Commerce, welcomed Mr Brown's emphasis on productivity and investment, Kevin Brown reports. "However, the acid test for business will be whether the chancellor's forecasts for growth and borrowing are realistic and achievable," he said. "We now look for the Bank of England to support the chancellor's good intentions by reducing interest rates by 0.5 per cent this Thursday."

Ruth Lea, head of the Institute of Directors' policy unit, said the statement was a "damp squib" that would not remedy UK economic problems. "The forecast was optimistic, optimistic on growth and particularly optimistic on borrowing."

EURO NATION 'COMFORTABLY WITHIN GUIDELINES FOR NEXT FIVE YEARS'

Pledge on Maastricht criteria

By Neil Buckley in Brussels

Gordon Brown pledged in his pre-Budget report that the UK would meet the Maastricht criteria for euro membership in each of the next five years.

His statement was seen as a signal that the government had virtually made up its mind about joining the single currency. Nevertheless the government's public stance remained unclear with Jack Cunningham, the minister responsible for co-ordinating government policy, declining to endorse the line taken on Monday by Peter Mandelson, the chief trade and industry minister, that joining the euro was a matter of "when" not "if".

Nevertheless Mr Brown has put forward to prepare businesses and the government for the euro. He said yesterday in the House of Commons that the government would run a current account surplus over the coming five years, and the national debt would fall this year and in each of the next three years.

"And members [of the House of Commons] who take a special interest in the Maastricht criteria will want to know that in each year of the next five years Britain is comfortably within the Maastricht guidelines," he added.

A European Commission spokesman refused to comment on the content of Mr Brown's speech, but noted the tone was changing in EU countries that had not yet signed up to the euro.

"As January 1 [1999] approaches and the arrival of the euro becomes more concrete, that is having a clear impact on the debate in the non-participating countries – including the UK," he added.

But while the UK has already met four of the five Maastricht criteria, on budget deficits, the debt, interest rates and inflation, last year, it is a matter of debate whether it meets the criterion on exchange rate stability.

That is normally understood to include membership of the European exchange rate mechanism – although the treaty itself says only that countries wishing to join the currency must "observe the normal fluctuation margins" for two years.

Mr Brown has resisted pressure from its EU partners to re-enter the ERM after sterling's humiliating exit in 1992, and insisted that the UK would be allowed to enter Emu without being in the ERM first.

In practice, however, all 11 countries due to join the euro in January were in the ERM by the end of 1997. Even though not all had been in the mechanism for two years, their currencies were judged to have remained within the mechanism's 15 per cent fluctuation bands.

That may not currently be true of sterling, which has gained strongly against most EU currencies in the past two years.

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POLLUTION PENALTIES 'CLEAR SIGNALS' SOUGHT FROM GOVERNMENT

Support for energy tax grows

By Vanessa Houlder in London

The prospect of an energy tax on business grew closer yesterday after the idea was endorsed by a government taskforce investigating ways of reducing business emissions of greenhouse gases.

"My conclusion is that there probably is a role for a tax if businesses of all sizes and from all sectors are to contribute to improved energy efficiency and help meet the UK's emissions targets," said Lord Marshall, chairman of British Airways, who headed the taskforce.

The revenues from the tax should be recycled "in full" to business, said Lord Marshall. At least some of the money should go into energy efficiency schemes and technologies. He also recommended the government consider a system of rebates for energy-intensive users to reduce the overall impact on these industries.

Lord Marshall said the government had to provide "clear long-term signals to reduce emissions". He said there was a role for economic instruments – such as taxes and a tradeable emissions permits – alongside regulations, voluntary agreements and other measures.

He urged the government to consider setting up a pilot emissions-trading project to help UK companies and financial institutions develop the expertise needed to lead an international scheme in the future. However, "practical considerations" meant it was not sensible to introduce a fully fledged domestic scheme at this stage.

But even when a trading scheme is fully developed, it would only cover larger companies, the report said. That meant there was a case for introducing a tax to encourage small and medium-sized companies, which collectively account for 60 per cent of total carbon dioxide emissions from business, to improve their energy efficiency.

Changes in the rates of tax should be made "in a gradual and predictable way" to help businesses plan for future investment and maximise the environmental impact of the tax.

The tax should be a "downstream" tax on the final use of energy by industrial and commercial consumers. Tax rates should reflect the carbon content of fuels, in an attempt to maximise the emissions savings.

The Confederation of British Industry reacted to the Marshall report by expressing "continuing doubts" about the effectiveness of a proposed energy tax.

● The UK is poised to join nine other EU states that already encourage the use of smaller cars by means of a sliding scale of vehicle excise duty (VED), or "road tax", John Griffiths writes.

Gordon Brown yesterday confirmed plans for a £50 ($85) cut in VED for the most fuel-efficient vehicles, but is leaving it for a consultation paper to propose the best way of applying it. There is now an annual rate of £150 for all cars.

INTERVIEW BOB LUTZ

Maverick still firing on all cylinders

The former Chrysler executive explains his controversial ideas on the mechanics of successful companies to **Nikki Tait**

Driving force: Bob Lutz's book on management philosophy cuts through a lot of business-school blather to explain why he thinks some companies succeed and others fail Reuters

The customer is not always right. When it comes to financial controls, looser is frequently better. And too much teamwork can lead to bad decisions, waste and failed products.

Management theories emanating from Bob Lutz might be expected to be controversial – and his new book* fulfils all expectations. This, after all, is the maverick former Chrysler executive who freely admits to the personal motto: "Often wrong, but never in doubt."

Mr Lutz is also the man who never got to run Chrysler. He was famously developed as the heir-apparent of Lee Iacocca, the Detroit carmaker's legendary chairman, but was passed over in favour of GM's Bob Eaton when Mr Iacocca resigned.

But, to the surprise of the US auto industry, Mr Lutz did not walk out. He worked, apparently harmoniously, alongside Mr Eaton as chief operating officer, president and then vice-chairman; saw Chrysler through its "second" financial crisis in the early 1990s; and was instrumental in the development of the Viper, the powerfully vulgar sportster that helped revive the carmaker's image. He retired, a good deal richer, in the wake of the Daimler-Benz bid this year.

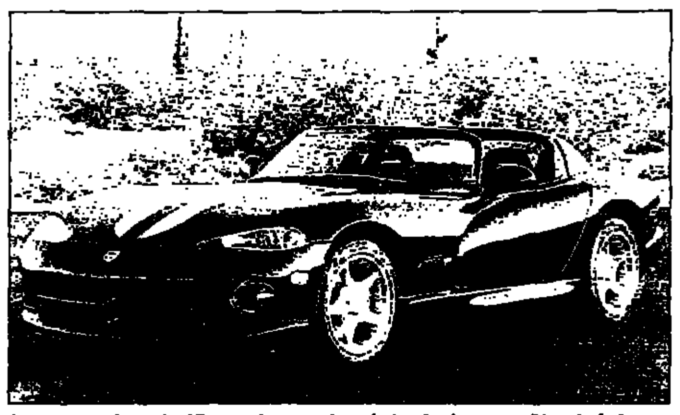
But in spite of a reputation for flamboyance – enhanced by his ownership of two aircraft, a helicopter and a stable of classic cars and bikes – there is still a blunt realism about Mr Lutz. He gives an interview, for example, in a small office on a University of Michigan campus, backed by a garish painting of a jet fighter, and seems almost as interested in the newly discovered mechanics of book publishing as in 10-cylinder engines.

So, why write a book about management philosophy, and touch on Chrysler only tangentially to illustrate some themes, when the carmaker's recent history has been the topic of such intense media interest?

Mr Lutz has two explanations. "I had formed certain opinions of why certain companies succeed and some fail, especially in the consumer products business. I find that successful companies have certain traits. Absent those traits, they will either be overly creative and chaotic, which leads to failure, or they'll be overly analytical and cautious, what I call left-brained," he says.

And, he admits, there were more pragmatic considerations: "The other reason I didn't do an 'Inside Chrysler' book is that it has been done about three times already. And none of the books did very well." As for a kiss-and-tell tale about the internal workings at the carmaker, that was constrained by the mutual non-defamation agreement between Mr Iacocca and executives.

"Anything which could be construed as derogatory, and our former chairman could wind up costing any one of us dearly. So it's like your mother always said: if you don't have anything nice to say about people, don't say anything at all."



Powerful reviver: the Viper, a Lutz project, helped rejuvenate Chrysler's image

The reader is not necessarily the loser. Although the book is, at times, a rather curious amalgam of Chrysler history, management philosophy and personal opinions, it still cuts a welcome swathe through a lot of business-school blather.

The central theme is the need for a "split personality" in successful companies. Essentially, Mr Lutz's concern is how to keep an organisation and its employees imaginative and energised – capable of product innovation – without sacrificing efficiency. His own instincts, he admits, probably err on the creative side. "I've always liked to surround myself with people who are disciplined. If I had to do it by myself, I think it'd be all right – but I'm not sure," he confesses.

Part of the solution, he thinks, lies in solid rules and firm demarcation lines. "Yes, on the one hand, you want to permit as much creative latitude as possible. You want people to have as much freedom as possible in determining the 'how' something is done. But the senior people, on the other hand, have to be totally in charge of the 'what'."

Another guideline is not to get bogged down by endless market surveys. "The customer is always

'I've always liked to surround myself with *people who are* disciplined'

right" slogan, he notes, is inevitably limiting. "With products and services there is a need for creative leadership, where you step out ahead of the stated customer wants.

"Do you think that test pizza A tastes better than test pizza B? Well, there may be the all-new pizza C, which some creative genius in the Domino kitchens would like to try, but nobody's ever done one like that, so they're not even going to show it to the public yet."

This same point is rammed home in the book, with the tale of Chrysler's "small car" research in the late-1980s. This found that most buyers would like a car a few inches bigger, and nearly led the carmaker to invest several million dollars in making a slightly larger subcompact, which would have then exactly matched the dimensions of an existing compact.

"So fixated were the marketing people on solving the customers' problem that when the ludicrousness of this solution was at last pointed out – creating a car we'd already created, then selling it for less than we were already getting – their riposte was: 'But we've got to listen to the customer'," Mr Lutz writes.

So, which companies, Chrysler excepted, does he admire? He ponders, and then makes the surprising choice of Britain's Wilkinson Sword of the 1960s.

"Back about 20, 25 years ago, the shaving products market was just totally dominated by Schick and Gillette. Then this age-old British company came in and did an absolutely superior razor blade, which neither of the other companies had thought of doing.

"It adopted a somewhat higher price strategy – but based the whole marketing approach on tradition, excellence, superior product, and, by the way, was going to request slightly more money from you. It was a strategy that market research should have said wasn't going to work – because Schick and Gillette were in this knockout, drag-out price war. I'm sure that the market research said that razor blades are all the same."

**Guts – The Seven Laws of Business that made Chrysler the World's Hottest Car Company, by Bob Lutz. Published by John Wiley. Price: $24.95 (US); £16.50 (UK). Available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK*

LOUISE KEHOE
IN SAN FRANCISCO
EAGLE EYE

US and them on trade

Europe may be doomed to become a backwater in e-commerce because of high telecoms costs and lack of expertise

Electronic commerce traverses national boundaries. Anybody, anywhere in the world can compete on an equal footing on the internet. Right? Not quite, says Richard Jones, founder of FortuneCity.com, who has just moved his company's headquarters from London to New York.

A one-year-old community web site offering everything from free e-mail to topical discussion groups, FortuneCity has grown rapidly to rank 31st in the world in terms of internet traffic, according to September figures from Media Metrix, an internet market research group. FortuneCity was the only non-US web site in the top 200 until it moved.

Why uproot a thriving business? To be closer to sources of venture capital funding and in on the latest internet buzz all played a part, says Mr Jones, but the move really arose from more basic issues. The high-capacity leased telephone lines linking his web site to the internet were almost twice as expensive in the UK and hard to get. Finding people experienced in running a "server farm" of 100 or so computers was nearly impossible in London.

Forming transatlantic partnerships with US companies was also proving difficult, says Mr Jones. "People dismiss you as a UK company. There is a perception that you cannot be that good or that successful if you are based in the UK, because the US dominates the e-commerce market globally."

FortuneCity's story shows the disadvantages faced by non-US ventures as they attempt to make headway in e-commerce. In particular, higher telecoms costs are a killer. UK costs are lower than those in some other parts of Europe, but they are still considerably higher than in the US. This hangover from the bad old days of regulated telecoms is a serious barrier for aspiring European e-commerce ventures. No wonder there is a shortage of experienced web site engineers and a perception that e-commerce is dominated by the US.

If this situation persists, Europe may be doomed to be a backwater in e-commerce.

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On the topic of web site rankings, Media Metrix also produces a top 10 list of shopping sites, measured by the volume of traffic, rather than revenues. No surprise that bookseller amazon.com comes in at number one. But the second busiest shopping web site is less familiar.

Blue Mountain Arts (*www.bluemountainarts.com*) may not get a lot of attention from Wall Street, but it is attracting about 6 per cent of all internet users, according to Media Metrix's latest figures. A Colorado company whose biggest claim to fame is a legal victory over Hallmark Cards, recently settled by the US Supreme Court, Blue Mountain Arts is a publisher of inspirational books and greetings cards.

Its web site is the leading provider of online greetings. The web site is offered as a free "public service" and includes animated greetings cards for every holiday and special occasion – and more. There are thank-you cards and "sorry" cards; wedding invitations and cards to send to an "ex-love"; cards for Thanksgiving and Guy Fawkes Day. Blue Mountain is not really an "e-commerce" site, as it does not sell anything. However, the company is reported to be exploring the introduction of advertising.

When Eagle Eye first mentioned illustrated e-mail greetings about 16 months ago, readers were not at all impressed with the idea of pictures cluttering up their e-mail. But there are now dozens of web sites offering greetings cards. E-greetings (*www.egreetings.com*) – formerly known as Greet Street – has seen its traffic grow from 750,000 individual visitors in January to 3m in September. The company offers a range of free cards and charges $1.75 for more elaborate animated ones.

Postcards, a web site produced by MIT's Media Lab (*postcards.www.media.mit.edu/Postcards*), offers a menu of paintings by the likes of Van Gogh and Monet, courtesy of the Web Museum. Corbis Web (*www.corbis.com*) lets you choose from a collection of about 500,000 images to send a free electronic postcard, courtesy of Bill Gates, who owns this company.

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E-mail may be the most compelling application of the internet, but there is a new category of services that may become almost as important.

Web calendars – web sites that gather information about forthcoming events related to your personal or business interests and present them in a calendar format – are hot news. With Yahoo!'s purchase of Webcal, one of the pioneers in the field, other web portals are looking for ways to match their competitor. This puts When (*www.when.com*), a one-year-old California start-up, in the frame.

When launched a beta version of its web site this week. The company gathers information about forthcoming events – trade shows or opera performances, sports events or TV listings – and presents them on your personal calendar. The service is free. The company will make money on advertising, sponsorships and transaction fees, says Ted Barnett, chief executive. The latter fees include a percentage of the takings when users buy tickets for events listed on a calendar.

Rather than be gobbled up by another web portal, When hopes to co-brand its services, creating multiple calendars on various portals and corporate web sites.

It is too soon to predict who will win in this field. Yet the potential of web calendars is evident to anyone who has used Hotmail, or one of its competitors. Like the web-based e-mail services, web calendars will make your information accessible from any computer linked to the internet.

The next step may be to combine a web calendar with a desktop electronic appointments calendar. You could look up your calendar from any computer, check or enter new appointments, let colleagues and associates pencil in meetings for you and synchronise it all on the calendar web site.

Some may be supported by advertising, others fee-based, and it is not hard to imagine branded calendars. Perhaps internet service providers will host calendar services.

Web calendars will succeed. The only question is who will profit from them, and when.

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on lkehoe@ix.netcom.com

ANTIQUES FAIRS LOS ANGELES

The Big Top arrives in Beverly Hills

There has never been a large, successful art and antiques fair in Los Angeles. In fact, the art industry as a whole has been slow to tap LA's rich resources.

But that is now changing. Gone are the days when dealers sit back in their galleries and wait for buyers to walk through their doors. They have to travel the world to service their old clients and try to make new ones. More or less all have come to accept that their best means of defence against the auction-houses is to join forces for glamorous, high profile art and antiques fairs.

Enter David Lester, the man who has had more success with a tent than anyone since P.T. Barnum. Lester has doggedly refused to believe that there is no place for top-quality art and antiques fairs in the US outside of New York. So his International Fine Art Exhibitions provides his clients, the dealers, with an elegant $1m tent.

There were enough diamonds on display to illuminate Tinsel Town in a power cut

The beauty of Lester's 35,000sq ft pavilion, complete with its own independent and sophisticated lighting and climate control, is that it can go up more or less anywhere. The clientele the dealers have in mind are not tempted to visit ugly, edge of town convention centres: Lester offers them central locations and valet parking.

At Palm Beach, there is even yacht dockage – and in just two years, the Palm Beach International Art & Antique Fair has proved itself a winner. Sufficient top dealers have seemed only to happy to extend the short art market season by holing up in Palm Beach in January; many of its European exhibitors have already had the expense of shipping their stock across the Atlantic for the established International fair in New York. Despite poor weather, Lester believes the last fair generated some $50m in sales. Little wonder that a significant number of exhibitors, and eager new ones, have signed up for other fairs in the playgrounds of the temporarily idle rich – Aspen in July and Southampton in August.

Last week, however, the Big Top went up in Beverly Hills, its white pinnacles a conspicuous adornment to the Robinsons May parking lot on Wilshire Boulevard. Roadside banners heralded the fair, and the barkers were busy on the finishing touches to a $600,000 publicity campaign. Banks of flowers arrived, and 65 dealers from Britain, France, Belgium and across the US – and no one, not least the East coast dealers, knew what to expect or quite what to bring.

The exceptions, of course, were the 11 jewellery dealers: there were enough diamonds on display to illuminate Tinsel Town in a power cut. Fred Leighton from New York, for instance, offered a $1m Tudor Rose brooch made for Napoleon's niece, the Princess Mathilde and subsequently owned by Mrs Cornelius Vanderbilt; and the largest Moghul emerald in the world, a 420 carat stone that belonged, no less surreally, to both the Maharajah of Patiula and Vita Sackville-West, a snip at $800,000. London's Spink offered a $1.8m Chinese jade; Belle Epoque, Art Nouveau, Deco and Retro were on offer at Aviva of Geneva.

The picture dealers covered all possibilities, too. Hervé Odermatt of Paris, for instance, showed Basquiat as well as Chagall's "The Lovers" of 1951 ($3.5m) – one of the finest works by the artist on the market for years and the best of numerous examples here – and a $7m Cézanne landscape. New York's Beadleston Gallery showed another ravishing and reasonably priced $7m Cézanne, and alongside it an exceptionally fresh and charming Belle Epoque view of the Jardin du Luxembourg, and Dalí's artist's proof of the painted bronze, "Venus de Milo aux tiroirs" which belonged to Gala's daughter. The tiroirs, or drawers, according to Dalí, were there to let out all our modern complex inhibitions and save on analysis. Just the thing for Hollywood.

Standards were exceptionally high at the paintings and print dealers (though there were far too few furniture and Asian art dealers exhibiting). Philippe Cazeau & Jacques de la Bèraudière, for example, offered another covetable Cézanne, and a major Nabis period Bonnard portrait of his sister ($2.4m), the second version of which is in the Musée d'Orsay. Perhaps the fair's most breathtaking stand comprised a selection of impeccable Toulouse-Lautrec lithographs from the renowned print collection of Sam Jesofowitz. On the stand of Santa Barbara dealer Robert Light, they came with tags of $4,500-$1.5m.

High standards: Bonnard's portrait of his sister, the second version of which is in the Musée d'Orsay, is priced at $2.4m

Interestingly, it was 19th century Salon painting that prompted most of the cheques. By the time I had left, Trezza of New York, for one, had sold five works. British arms and armour dealer Peter Finer was pleased, too. He had hoped to find some new clients and encourage a new generation "to look at something other than cowboy guns". Who could not prefer a stunning pair of silver and tortoiseshell belt pistols made for the Viceroy of Mexico in 1692 ($580,000)? In the end he found five new clients.

Leading Mexican and Latin American art dealer Mary Ann Martin already had numerous Hollywood clients. She sold a striking Tamayo to a collector she already knew, but to whom she would not have thought of offering this particular picture. She was also offered a work of art she wanted to buy.

Asprey & Garrard, the British Crown Jeweller, sold from their entire range, from a George I silver teapot to a contemporary silver tea service and a $500,000m-plus sapphire and diamond necklace. One thing this fair has demonstrated is that Los Angelinos are not only interested in contemporary art, although diamonds may well still be a girl's best friend.

Susan Moore

Good parts that fail to add up

THEATRE

ALASTAIR MACAULAY

Ugly Rumours
Tricycle, London NW6

Ugly Rumours, the new satire on Blairism by Tariq Ali and Howard Brenton, has two marvellous performances, and it bursts into comic life whenever these two actors are onstage. One is Gordon Kennedy, who plays the chancellor of the exchequer, "Gordon Macduff", with fabulous intensity. Oh those Dunfermline-friendly vowels; that alternation between dour brooding and boyish enthusiasm: the conscience-stricken alarm with which he reports that the prime minister is planning to merge the TUC and the CBI ...

The other is Sylvia Syms, who – though only appearing in some three scenes as Mrs Thatcher and in one as the crowned "Mrs Windsor" – shows us all that there is no such thing as a small role. On she comes as Maggie, the ghost that has never left 10 Downing Street, vacuuming up socialism from the Blair household, and she is at once a full-blown Spitting Image, disturbingly manic. As the Queen, she allows full space to react to the names of each of her 10 prime ministers. Ah, the spasm of loathing when Thatcher's name is mentioned; the blank of near-oblivion when Major's name comes up. And then the delicious mini-panic as she asks the prime minister: "There haven't been any more sightings of the People's Princess, have there? Philip is terrified she's coming back, like Elvis."

Ugly Rumours would be funnier if all the performances were on this level. As commère, and as the spin doctor Polly Mendacity, Jaye Griffiths performs with a self-satisfied knowingness that gets the show off to an irritating start. In truth, however, the performers – directed by Christopher Morahan and Stephen Rayne – give more to their script than it gives to them. *Ugly Rumours* works very hard to debunk New Labour and to show that the prime minister, Tony-Boy, is really an anti-socialist, anti-parliament, and anti-democratic soulless monster following, with terminal boyishness, in Margaret Thatcher's wake. But the strain shows.

It hardly matters whether or not your own politics coincide with those of authors Ali and Brenton: *Ugly Rumours* is just too relentless, too hectoring, too erudite. Making the Queen read Gramsci, having characters refer to Spinoza and Wittgenstein and quote Chekhov, dramatising the chancellor as if he were young Hamlet haunted by the wronged ghost of John Smith ... it's all very wiseguy, very flashy, oddly alienating.

There are, admittedly, good lines along the way. A spin doctor offers Tony-Boy alternative ways of presenting policy. "There's the Marlon Brando, Al Pacino, Bill Clinton method: you've got to *believe* what you're saying." "What's the other way? the prime minister responds, impatiently. There is the way the prime minister rewrites Churchill's "we will fight them on the beaches" speech, line by line: "No, we will *meet* them on the beaches, and exchange views ..." Also the way he wears a baseball cap backwards, William Hague-style, and does a rap number with repellent slickness.

Meanwhile the chancellor becomes almost fascinating: reluctant to follow his spin doctor's advice to marry and yet intensely sexual in his fantasies of power, heroically anguished in his quest to right the wrongs of murdered socialism but stolidly finding himself outpaced at every turn by the creepy Tony-Boy. But the comedy is never organic. And the fierceness of the satire proves more chilling than the Blairism it targets.

Marvellous performance: Sylvia Syms, with Neil Mullarkey Alastair Muir

All the moves, but no message

DANCE

CLEMENT CRISP

Sawdust and Tinsel
Sadler's Wells, London EC1

I cannot imagine at the altar of which strange god the Royal Ballet has chosen to sacrifice large sums of money on Ashley Page's ballets. For the past decade his new works have come in their expensive decoration and, unlamented, have gone – into a limbo of unregretted experiment.

Their manner is familiar. A theme that just escapes comprehension; elaborate and costly design in "painterly" and modern guise, scores that are often distinguished but which must be made to serve Page's ends – thus the spatchcocking of Prokofiev with Robert Moran, and the newest use of two unrelated Poulenc scores. These ballets have addled scenarios – the sci-fi nonsense of *Blood-lines*; the fluster of *Piano* or *Two-part Invention* – and as one replaces the other it is tempting to wonder why the Royal Ballet bothers.

The flag – and it is a flag of convenience – under which all this work sails is, of course, that of "modernism". Page uses contemporary artists, contemporary scores, but with a lack of discrimination, with a desperate need to be up-to-date, that is ever willing to try and never able to realise what must be his Diaghilevan ideal. There are virtues in his work: he can put steps together, and in *Pursuit* I thought he had broken through to potent and fruitful academic innovation, the dance clear, alert, logical. His ballets' flaw, for me, is a lack of final purpose – a case of "all those words, and no message". And, the Royal Ballet keeps coming back for more. Creation for the sake of creation is not an artistic policy.

The newest Page piece, seen on Monday night at the Wells, is *Sawdust and Tinsel*. Its theme, I suppose, is that circus performers are as faithless, sexually greedy, foolish and emotionally fly-by-night as the rest of humanity. There is a large and unappealing set (tented, with a vast ramp, and a skied ladder) and vulgarly dreadful costumes, all by Jon Morrell. There is a cast of nine, identified (by name if not by action) as circus performers. There are gropings and mopings – one seems the hapless focus of a great deal of feeling, of one kind or another – and a chap in drag.

Performances are, I found, entirely unconvincing, because there seems neither logic nor wit to what the dancers are called upon to do: all they have is a repertory of sexual signals to each other. And there is Poulenc, being taken to the cleaners. The double piano concerto (admirably played by Tim Qualtrough and Paul Stobart) is not there to sustain Page's dramatic scheme. It seems rather that he galvanises his flaccid characters as the music develops – and its logic is not his logic. He precedes this with a movement from the clarinet sonata, for no evident reason, since the circus folk – all employed by Barnum and Cliché – behave no differently. I thought the whole affair catastrophic.

The rest of the programme brought a decent if somewhat under-lit performance of MacMillan's *Las Hermanas*, and the last act of *Raymonda* with Darcey Bussell on admirable form in her solo, with Igor Zelensky as her partner, soaring handsomely but wearing a tinsel Alice-band which does nothing for the image of male dancing or the character of a Crusader. Antony Twiner gained sterling performances from the orchestra.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
● *The Rake's Progress*: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 4, 7, 10

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
● Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation and building work, a selection of its finest holdings will be exhibited in the Rijksmuseum's South Wing; to Mar 7

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 7

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Christoph Kolumbus: by Milhaud. New staging by British film director Peter Greenaway, conducted by Philippe Jordan; Nov 5

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 6
● Mourning Becomes Electra: by Martin David Levy. New production by Liviu Ciulei, conducted by Richard Buckley; Nov 4, 7

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
● Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations. Many of these objects have never before been publicly exhibited; to Dec 6

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
● Joan Miró: big retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● Dalibor: by Smetana. Conducted by Richard Armstrong in a staging by David Pountney; Nov 4
Theatre Royal
Tel: 44-141-332 9000
● Scottish Opera: The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Fames; Nov 5

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
● Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garfoth; Nov 4, 7

LAUSANNE

EXHIBITIONS
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
● The Collection of Dr Henri-Auguste Widmer: in 30 years, Widmer collected more than 600 works of art. This display, designed to pay tribute to one of the museum's most generous donors, includes works by Boudin, Daubigny, Chintreuil and Rousseau. The exhibition also includes sculptures and a selection of antiquities; to Nov 8

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: Michael Tilson Thomas conducts a series of works by Stravinsky; Nov 6, 8

DANCE
Sadler's Wells
Tel: 44-171-863 8000 ● Rambert Dance Company: Cruel Garden, by Lindsay Kemp and Christopher Bruce. Evocation of the life and work of Federico García Lorca, set to music by Carlos Miranda, performed by London Musici; Nov 10

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mary Stuart: by Donizetti. Conducted by Jean-Yves Ossonce (Noel Davies from Nov 7) in a new staging by Gale Edwards, with costumes by Jasper Conran. Ann Murray sings the title role, with Susan Parry as Elizabeth; Nov 5, 7, 10

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Charlotte Salomon: born in Berlin in 1917, Charlotte Salomon died in Auschwitz in 1943, after living in hiding in the south of France for three years, during which time she produced a series of 769 gouaches called Life? Or Theatre?, exhibited here, which has been interpreted as a form of self-protection against the violence of the Nazi era; to Jan 17

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
● L' Elisir d' Amore: by Donizetti. Massimo Zanetti conducts a staging by Ugo Chiti, with designs by Tullio Pericoli. Mariella Devia sings the role of Adina; Nov 6, 8

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
● Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 7

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Le Nozze di Figaro: by Mozart. New staging by Jonathan Miller, with designs by Peter Davison. With Renée Fleming, Cecilia Bartoli and Bryn Terfel, conducted by James Levine; Nov 7

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Degas Photographs: bringing together 35-40 photographs, most of which were made in the 1890s. Mainly figure studies, self-portraits and portraits of the artist's circle; to Jan 3

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Tristan und Isolde: by Wagner. Conducted by Donald Runnicles in a staging directed by Michael Hampe, designed by Mauro Pagano; Nov 6

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● In Visible Light: Photography and Classification in Art, Science and the Everyday. Traces the evolution of photography from its anthropological and scientific applications in the late 19th century to works by artists including Andy Warhol and Cindy Sherman; to Nov 15

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
● Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards, and designed by Luisa Spinatelli. The cast is led by Mirella Freni and Placido Domingo; Nov 4, 9

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Currency vacuum

There is a gaping hole at the centre of the G7's plan to prevent a recurrence of the recent financial crisis

Frequent repetition of a financial crisis on the present scale would be quite intolerable. So even though they are still trying to put out the fire, policymakers must also do their best to prevent another conflagration.

To their credit, the finance ministers and central bank governors of the Group of Seven leading industrial countries made a serious attempt last week. Their declaration reflected the efforts of Gordon Brown, chairman of the G7 finance ministers this year, and built upon three reports from the Group of 22 "systemically significant economies".

The resulting agenda is sensible. It includes increasing the transparency and openness of the international financial system; enhancing stability, particularly through more effective regulation; and improving ways to respond to crises, particularly through orderly workout arrangements, better insolvency regimes and lending into arrears by the International Monetary Fund. Nevertheless, the recommendations seem both too ambitious and not ambitious enough: they contain a dauntingly wide range of complex and intractable reforms, but they still do not tackle a central question, that of exchange rate regimes.

The questions raised by global financial instability are as many and interwoven as the Gordian knot; leaders must cut through it. The sharpest sword they have is advice on exchange rates. Emerging markets should be encouraged to adopt either of two extremes – either fairly freely floating regimes or robust currency boards, which fix a currency to an anchor, usually the dollar.

Yet all the G7 declaration calls for is "consideration of the elements necessary for the maintenance of sustainable exchange rate regimes in emerging markets, including consistent macroeconomic policies". Even in the G22 report on crisis prevention and management, less than two pages of the 42 are devoted to exchange rate regimes. This is Hamlet without the prince.

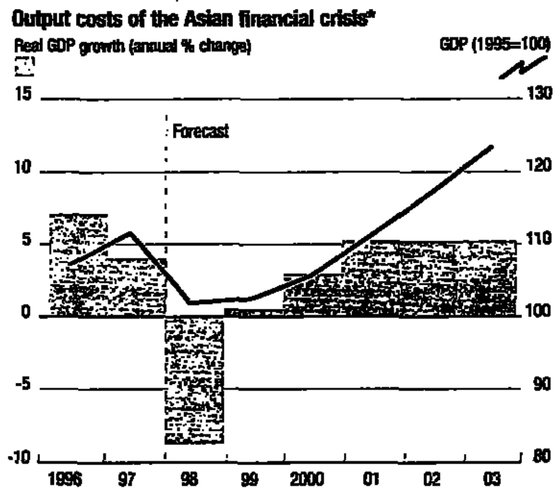
Exchange rate regimes matter. To understand why, one must start with the frightening number of banking crises and no less impressive number of currency crises over the last two decades. Bad though these are when separate, maximum devastation occurs when they arrive together, as happened in Chile in the early 1980s, Mexico in the mid-1990s and Thailand, Indonesia and South Korea last year.

The fiscal costs of such banking crises can range from 20 per cent to 40 per cent of gross domestic product. But a currency crisis imposes the additional trauma of a forced external adjustment. Even the IMF's relatively optimistic forecasts suggests that the four most affected Asian economies will regain 1997 levels of GDP only by 2001. Four lost years must be the least bad outcome to be expected.

Contrast that with Japan today or the UK in 1992. Japan has a banking crisis, but there is no constraint on its ability to provide cheap money and fiscal expansion at home. Britain suffered a currency crisis, but devaluation allowed lower interest rates and a swift return to growth. Neither has suffered anything like the trauma of the crisis-hit emerging countries.

The explanation is that the UK and Japan had no significant foreign-currency debt. Large quantities of foreign currency debt, unmatched by foreign currency assets of equivalent size and maturity, guarantee that a currency crisis will cause a banking collapse, and vice versa. Once the exchange rate falls, borrowers, particularly banks, will find their liabilities rising in value against their assets. Similarly, if the financial system begins to look infirm, foreign creditors will take their money out, thereby creating a currency crisis.

Output costs of the Asian financial crisis*



Source: IMF World Economic Outlook

* Indonesia, Malaysia, South Korea and Thailand

There is also a close connection between the size of foreign currency debt, exchange rate regimes and a currency crisis. That connection is a fixed exchange rate. Suppose the authorities have kept their currency pegged to an anchor over a lengthy period. Naturally, some borrowers treat borrowing in foreign currency as no different from borrowing in domestic currency. Similarly, some lenders begin to think their investments are protected against exchange risk.

This is a recipe for huge capital inflows and large current account deficits. Should the government wish to limit the expansionary effects on domestic credit, by raising domestic interest rates, the incentive to borrow in foreign currency will increase. As foreign debt piles up, domestic credit expands and the economy overheats. A crisis of confidence becomes inevitable and the country finds itself buried under the rubble of banking and currency collapses.

There are three ways for a country to minimise the danger: regulatory, prudential and market-based. The regulatory solution is to create a healthy and well-capitalised banking system, while curbing foreign currency mismatches and perhaps imposing permanent curbs or taxes on debt-creating inflows of foreign currency. The prudential solution is to accumulate sizeable foreign exchange reserves or contingent lines of foreign credit. The market solution is a floating exchange rate.

With a floating exchange rate, foreign currency risk is an abiding presence. Floating rates economise on what emerging markets lack – honest, effective and public-spirited regulation. Regulation will still be needed, but its defects should be less disastrous.

Floating exchange rates also economise on international lender-of-last resort facilities. Indeed, the principal G7 suggestion for dealing with contagion, the "contingent short-term line of credit" is, in practice, largely needed to stabilise pegged exchange rate regimes, such as that now in Brazil. Under floating exchange rates, external funds may still occasionally be required to halt collapses in the rate, but these are likely to be more infrequent and less dramatic than when an established peg is broken.

The G7's silence on exchange rate regimes is understandable, since the topic is so controversial. But it is a mistake. The choices should be debated now.

First, countries can continue to operate adjustable-peg or other tightly managed regimes, but they will then need tough regulation of the financial system and, in all probability, control over capital flows as well. There may also need to be large-scale contingent external assistance, in the form of funds available to prevent, cushion, or halt currency collapses.

Second, countries can adopt fully fixed exchange rates, such as Argentina's currency board. This can work, but it demands a liquidity policy for both the banking system and the country, with large reserves, not just to back narrow money, but to support the banking system through panic. Flexible nominal prices and wages will be needed. So may external contingency funds. There are valid arguments for choosing this option: the country may feel politically unable to develop a credible, domestic monetary regime; alternatively, it may fear the destabilising fluctuations in real exchange rates that accompany a float. But it remains a huge gamble.

Finally, countries can float. Some of the need for regulation under adjustable pegs will then be taken care of automatically, via market forces. True, floating rates may also demand foreign currency support in a world crisis, but less than if a peg is to be defended. Floating exchange rates are the worst possible system – except for all the others.

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LETTERS TO THE EDITOR

Potential fault lines in G7 plan for fund to help vulnerable economies

From Mr Guy Standing.

Sir, The Group of Seven leading industrial nations' plan to set up a contingency fund for the International Monetary Fund to provide short-term loans to countries facing financial crisis as long as they are following "sound policies" must be subject to transparent scrutiny before it becomes part of the new orthodoxy ("G7 backs plan to help vulnerable economies", October 31). The plan might suffer from four types of error.

The first is that it could result in the IMF giving to countries unnecessarily in the erroneous belief that a crisis is coming. There is a moral hazard in that a country might have an interest in encouraging the IMF to believe it needs aid.

The second arises from not giving to a country facing a crisis because the IMF has not seen the signals. The record is not encouraging. Presumably the G7 are satisfied that the future will be better. The IMF set up an "early warning system" after the Mexican peso collapse of 1994, which neither the IMF nor other financial agencies predicted. The IMF's World Economic Outlook of mid-1997 claimed that the east Asian economies were doing well; that July the Thai baht crashed and the rest is history. Did the IMF predict the Czech devaluation in 1997 or the recent Russian debacle?

The third type of error is that what the IMF believes are "sound policies" may not be sound. If they were, then why is the country in a mess? One can see ways round this, but it requires some mental juggling.

The fourth error is that what the IMF designates as sound are not appropriate. The World Bank's chief economist has been writing papers criticising the "Washington consensus", which lies behind the IMF policies. Others have been doing so for years. Countries adopting IMF structural adjustment plans have experienced stagnant per capita incomes long afterwards. Some economists believe stagnant real incomes are indicative of unsound policies.

The IMF may be the best there is, and may be right. However, transparent debate is needed, involving more than the usual participants in Washington and Cambridge, Mass.

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Convention for quoting euro/sterling rates

From Mr Simon Hills.

Sir, Alan Beattie's article (Business and the euro: "New horizons for forex traders", October 29) on the impact of the euro on the foreign exchange markets rightly identifies that the issue of how sterling should be quoted in the interbank foreign exchange markets in London remains unresolved. Individual dealer inertia may have played a part.

The position of the British Bankers' Association is that euro/sterling rates should be quoted on a certain for uncertain basis, that is, E1-£0.71. It is actively promoting the adoption of this convention which mainland European trading centres have already decided to follow.

London trading banks should do so too. This will minimise the risk of error and confusion and ensure that London becomes the focus of trading in the euro.

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Independent political thinking endangered

From Mr Peter Ford.

Sir, Voting reforms proposed by Lord Jenkins are undemocratic, and should be rejected ("Blair at odds with cabinet members after backing reform", October 30).

It is unlikely the average voter will understand the system proposed. It may be intellectually clever, but this is a fundamental flaw. The ensuing confusion is likely to be further exacerbated by the use of several different, and equally complex, voting systems for different elections, for example, London mayor assembly, MEP elections, local council elections.

The use of "party lists", even on a partial basis, represents a move away from the individual voter being able to decide who they want to represent them, and towards putting more power into the hands of political parties. This further reduces the likelihood that we will have independently minded political representatives.

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FT INTERVIEW COR BOONSTRA

Trying to make it better

The president of Philips tells **Gordon Cramb** that the US, the scene of his biggest setback, is also the market which matters most to his company's future

By Cor Boonstra's left hand are four boxes of aspirin. He still suffers from what was a "horrible" slipped disc, though he says his back is "not bad" now.

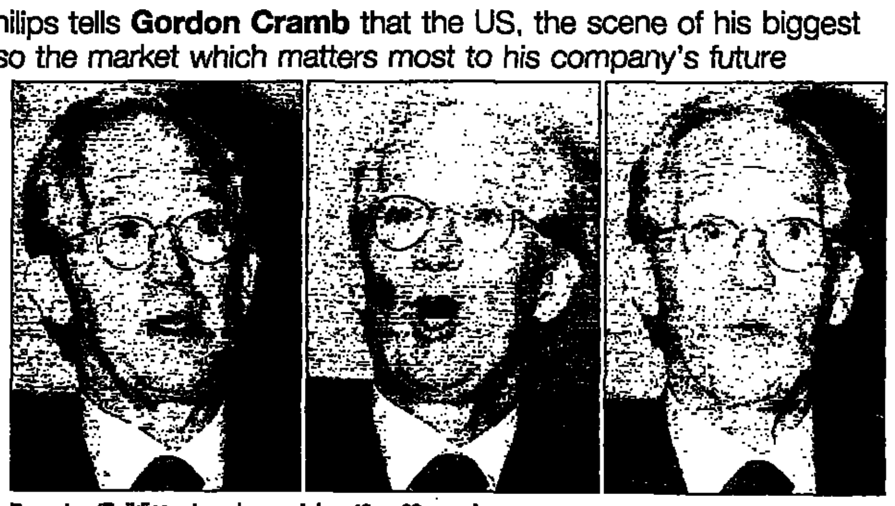
His words could describe Philips's experiences since he took over as president two years ago. Europe's largest consumer electronics group is on course to match but not to exceed the record Fl 3.29bn (£1.05bn) net profits from operations achieved for 1997. Its resilience in the face of weakening markets has been helped by Mr Boonstra's drive to fix, close or sell businesses he deemed were underperforming or peripheral.

Gone are investments in Germany's Grundig, in car audio and in European cable television. Factories are being closed at an astonishing rate (one-third will shut in four years). Next out of the door is PolyGram, the music and films subsidiary being sold to Seagram of Canada. What remains is a sharper electronics hardware operation aiming to secure its place in a sector which Mr Boonstra calls a "toy store" of opportunities.

He contrasts it with his former job at Sara Lee of the US, where he had to persuade American consumers to drink just a little more coffee and deal with a consequence of dress-down office Fridays (which meant women were spending 15 per cent less on tights).

"Electronics are fantastic growth products. Even television sets are growing by a pace which is far beyond my experience in the food and apparel industry. There are still 130m television sets sold per year in the world market – that is close to the number of personal computers being sold."

The Dutch group is a world leader in electronic goods from colour picture tubes to shavers, as well as in lighting, a division Mr Boonstra headed after joining Philips in 1994. Two years later he became only the 10th president in its 107-year history, and the first who had not spent almost his entire career with the company.



Boonstra: 'Building a brand name takes 10 or 20 years' Reuters

He moved its management from the staid Dutch city of Eindhoven to Amsterdam, maintaining that the move would help Philips attract international talent: most of all, the marketing professionals closest to his heart. After overseeing the group's first global advertising campaign ("Let's make things better"), he authorised a 30 per cent increase in the media budget this year for the US, the market where he most wants growth.

US consumer awareness of Philips has improved – all that can be expected for now. "Building a brand name is a job which takes 10 or 20 years. It is not something you do by putting one shot in the arm," he says.

The US has also been the scene of Mr Boonstra's biggest setback. A year-old joint venture in telephone handsets with Lucent Technologies was unwound last month at a cost to the Dutch group of about Fl 1bn. The project went wrong because of delays with semiconductor design.

The tie-up was intended to give Philips access to the US market for mobile phone handsets, which follow the US preferred standard CDMA. The GSM system used in Europe and elsewhere is available in many US cities but CDMA is likely to prevail. Philips says it will instead settle for a top five position among GSM suppliers, retreating from its head-on challenge to Nokia, Motorola and Ericsson. "We were overcome by enthusiasm," says Mr Boonstra. Lucent was less committed than he thought, he said, and the venture was running six months late with a mobile product for the US. "You should not declare victory before you start to create weapons. I believe that is where we really went wrong," he says.

The Amsterdam group has reinforced its US armoury by buying ATL Ultrasound, a maker of diagnostic imaging equipment, for $800m. As the first significant purchase authorised by Mr Boonstra as president, it serves as a brain-scan of his acquisitions policy.

Describing himself as very cautious on takeovers, he says Seattle-based ATL is a "world leader, with fantastic management, a very good product and good technology. Tomorrow we would buy another company like that if we found one." He nominates semiconductors, lighting and the medical side as possible areas for further acquisitions.

"All our product divisions have the freedom to come with proposals, but they know we are very critical. We certainly look at the maturity of the product line ... We need market growth potential if we acquire."

To sell him a deal solely on the basis that it is strategic will not wash. "There was something behind 'strategy', and that was a free ticket for spending," he says of projects undertaken before he took over. For more than a year, while he reined those adventures in, Mr Boonstra declined to discuss his vision for the group. Now he is happy to.

"We want to play an important role in the TV-centric digital product arena and the products which surround that" in and away from the home, he says. Components and semiconductors underpin that, and activities across the company need to support the brand. In-house manufacturing will see products through their start-up phase, then "at a certain moment we will consider handing it over to other suppliers".

When will Mr Boonstra hand over? Aged 60, he will stay "as long as you folks do not give me the signal that it is time to leave". Partly in jest, the reply also indicates that he values external perceptions of how he is faring. Philips's share price, which he sees as an objective measure of performance, has halved since May.

That in part reflects a mobile phones fiasco from which Mr Boonstra seeks to distance himself. Latest in a series of departures is Doug Dunn, the Briton responsible for that venture, whom some had tipped as Philips' first non-Dutch president. Now, a decent amount of money is riding on another Dutchman: Roel Pieper, the 41-year-old former chief of Tandem Computers who joined six months ago.

Mr Boonstra says: "We at least try to be very frank in the organisation here in dealing with each other." He also makes clear he intends to stay until Philips' results improve further. That may mean his fellow directors need to watch their step.

FINANCIAL TIMES

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Wednesday November 4 1998

Blair's bridge to Europe

With the successful visits of Gerhard Schröder, the chancellor, and his foreign minister, Joschka Fischer, to London in the past week, Anglo-German relations have got off to a good start after the change of government in Bonn. Indeed judging by the political mood-music, they may at this moment be at their warmest for two decades.

The question now is how to build on this foundation. London and Bonn need to develop a relationship that is both realistic in terms of what can be achieved and non-exclusive in terms of other EU partners.

Such balance will come easier for Mr Schröder. Representing Europe's strongest power, he can be sure that all of his EU partners will want close ties to him. During his election campaign, he spoke several times of turning the historic Franco-German relationship into a triangle with Britain. But in office, he has dropped such trilateral metaphors, at least in public, deciding that it would give needless offence to the touchy French.

For Tony Blair, it will be harder to resist overstating his new-found relationship with Bonn. He has constantly repeated, during his 18 months in office, his desire for Britain to play a bigger part, even to lead, in Europe.

First overtures

With the Socialist victory in France coming within a month of his own, Mr Blair predictably directed his first overtures to Paris. But there may now be a temptation for him to switch target to Bonn. On European policies, Britain has a greater natural coincidence of interest with Germany than with France. London and Bonn have broadly the same views on free trade, on enlargement of the European Union, on defence and on relations with the US.

But currying favour with Europe's strongest power, even if successful, will not remove certain obstacles that lie in the path of a closer British relationship with Europe. One is the inescapable limitation that Britain's self-exclusion from economic and monetary union (Emu) places on its European policies. The Blair government did not seem to be able to face up to this a year ago, when Gordon Brown tried to gatecrash the new club of finance ministers of the single-currency countries. The UK government may have adopted a new pro-euro tone in recent days, but the limitation will remain until it actually decides to join Emu.

Military field

As a bridging strategy until Britain can join the single currency, Mr Blair has been casting around for pro-European policies outside Emu. He has found one in the military field by conceding a defence role for the EU, a move appreciated by Germany. But the UK government has chiefly hoped to gain influence by spreading the gospel of market-based, supply-side economic reform. This may now hit a German rock in the shape of Oskar Lafontaine, the new finance minister whose apparent Keynesianism also strikes a natural chord in France. This may well shift the economic debate away from the Blair agenda.

Britain cannot, and should not, count on the Franco-German machine misfiring in order to provide it with opportunities to make advances to either Bonn or Paris. There is no reason why Britain should not harbour ambitions to exert influence, or even to lead in conjunction with other EU states. But it would be wise to base such an effort on an across-the-board improvement of relations with all EU states.

The Blair government seems to have grasped part of this. It is moving to balance new political ties to Bonn and Paris with overtures to long-neglected allies in the Nordic area and the Low Countries, and regular summits with Spain and Italy. But it is still not clear that Mr Blair has grasped the main point: a real change in Britain's role in Europe will require patience and years of hard work. Bad blood is not washed away overnight.

Encouraging Pyongyang

North Korea is a rogue state run by a Stalinist communist party and a nationalistic military establishment. It is capable of developing nuclear weapons, if it has not done so already. It has also produced and exported missiles capable of being armed with nuclear warheads. The country is a threat not only to South Korea and its other neighbours, but to the wider world.

At the same time, its economy is in a state of virtual collapse, its population suffers from severe food shortages, and its industrial sector – apart from the military complex – is inefficient and backward. It is ruled by a reclusive leader, Kim Jong-il, whose authority is uncertain since he succeeded his ruthless and charismatic father, Kim Il-sung, four years ago.

This highly unpredictable and unstable state agreed at the weekend to open its secretive doors to its first really substantial foreign investment, with Hyundai, South Korea's largest conglomerate. The plans involve the development of a tourist resort in the Diamond Mountains, possible exploitation of offshore oil fields, and eventual investment in car assembly, ship repair and other industries.

Although there must be some doubts about Hyundai's ability to finance this, given South Korea's current economic difficulties, the project received the personal endorsement of Mr Kim, at a meeting with Chung Ju-yung, Hyundai's veteran founder and chairman. That is the best possible assurance that the investments will eventually go ahead. They are the first significant result of the so-called sunshine policy of economic co-operation being promoted by Kim Dae-jung, South Korea's president. And they should be welcomed as the first positive sign of sanity from Pyongyang in many months.

Nuclear blackmail

Hitherto, North Korea has negotiated with the rest of the world largely through blackmail. By threatening to develop nuclear weapons, Pyongyang persuaded the US, Japan and South Korea to fund a peaceful programme of nuclear power generation. By threatening to sell its missiles to other potential nuclear states, it is seeking further leverage.

Economic reform

Encouraging foreign investment, which in turn will generate alternative export earnings to the sale of its missiles, will give Kim Jong-il an alternative to this cynical and dangerous course. He is doing so in the face of hardline resistance from his military commanders. Some believe that he may yet prove to be an economic reformer by the back door.

Formal peace talks between the two Koreas, co-chaired by China and the US, made little visible progress in Geneva last week. They seem unlikely to produce the breakthrough to any eventual demilitarisation, and unification, on the Korean peninsula. Economic co-operation is both a more likely route, and a necessary precondition for peace.

Re-unification of the divided nation would be traumatic in the present circumstances, with an impoverished north joining a relatively prosperous south. So every effort must be made to revive the northern economy, and give the country a stake in stability.

The same thinking should keep alive the deal to build peaceful nuclear power stations in North Korea. President Bill Clinton has circumvented a reluctant Congress to pay the latest US instalment, and Japan has also agreed to unfreeze its contribution of \$1bn, put on ice after Pyongyang fired a ballistic missile without warning in August. That is sensible.

North Korea will never be easy to deal with. But encouragement should be given to the process of opening its economic doors. In return, it is reasonable to demand more civilised behaviour from Pyongyang. But the very fact of being more integrated into the outside world should help ensure that process.

The UK Green Budget, page 11

Russia's pretenders

As Yeltsin fades, a centre-left coalition is emerging as the country's main political force, says John Thornhill

Boris Yeltsin has so dominated Russia that for the past seven years almost all public life has revolved around him. It is not merely that he blotted out any politician who trespassed too far into the presidential limelight. More important, he polarised the country so that all other politicians have been forced to orient themselves around him: broadly, in a crisis, you were either for Mr Yeltsin or against him. It was the defining feature of political life.

But it is no longer true. With Mr Yeltsin recuperating from "nervous exhaustion" at a seaside retreat, the 67-year-old president is not a focal point of other people's concerns. In the short term, the consequences are relatively predictable. Last week, the Kremlin confirmed what many had long suspected: the day-to-day management of the world's biggest country has passed into the hands of Yevgeny Primakov, the adroit and politically cautious prime minister.

But the longer term consequences are perhaps more intriguing. Freed from Mr Yeltsin's thrall, Russia's politicians – and especially its future presidential contenders – are starting to define themselves anew.

The past few months have been filled with a flurry of activity from Russia's fractious political groupings. These could change the fundamental orientation of Russian politics as soon as Mr Yeltsin's term expires in the summer of 2000 – if not before. And of all the developments, the fitful evolution of a broad centre-left alliance has been by far the most significant.

This bloc's supporters span a broad array of Communists, trade unionists, and nationalists.

From the left, Russia's largest political force, the Communist party under Gennady Zyuganov, has regrouped its forces and rethought its philosophy.

In the centre, General Andrei Nikolayev, the former head of the federal border guards turned telegenic nationalist MP, has been busily marshalling the country's moderate trade unionists and Social Democrats, signing them up to his Union of People's Power and Labour.

An influential MP, Alexei Podberyozkin, compares the strategy of this putative centre-left alliance to two armies converging on the same, distant field.

Certainly, these forces could be powerful electorally if they really combined. The bloc's supporters exultantly predict they will win 70 per cent of the vote at the next parliamentary elections in December 1999. That would ensure whoever is their general would vault into the Kremlin the following year in the presidential election. That figure could well be Yuri Luzhkov, Moscow's ambitious mayor. Many political observers believe the bloc could form the national power base for Mr Luzhkov, who has long been greedily eyeing the presidency. After conspicuously flirting with the Communists in recent weeks, he has also been tipped as the most likely single presidential candidate from this centre-left grouping.

With so much at stake, it is all the more important to understand what this centre-left alliance is really like, what it stands for, whether it has a coherent policy and how united its members are.

Konstantin Borovoi, a prominent liberal MP, argues the centre-left alliance is just a grouping of political opportunists which lacks any coherent plan of action, other than a vague hankering after the failed Soviet policies of the past. "It is an artificial attempt to create a political force without a political idea," he claims. "You might just as well have a party of sportsmen."

Mr Podberyozkin, who is the leader of the nationalist Spiritual Heritage movement, which has played an important role in trying to make the opposition something more than merely anti-Yeltsin, dismisses the claim. Like much of the rest of Europe, he says, Russia is embarking on its own quest for a "middle way".

"The future will not be about communism or liberalism or social democracy. Instead there will be a search for new political methods and at the same time a return to our traditional roots and heritage," Mr Podberyozkin explains in his office, decorated with icons and littered with pamphlets explaining the workings of investment funds.

"But the most important development is that we have had a revolution in social consciousness and now the left idea is dominant. I am therefore 100 per cent sure that the centre-left will win," he says. In other words, much of the centre-left's appeal lies in the current popular reaction against market reform. Given how widespread the reaction is, that is a solid base on which to rest a public appeal, though it is vulnerable to a further swing in public mood if the current government brings about further economic chaos. After all, the centre-left's policies, do not sound all that different from Mr Primakov's, at least as Mr Podberyozkin recounts them.

In his view, the four defining beliefs of the centre-left bloc are: strengthening the social welfare net; increased state regulation of the "irresponsible" market economy; a return to traditional and national values; and the priority of education and culture.

'It is not possible to be a revolutionary if you drive to work in a Mercedes and have a big flat'

In seeking to ally itself with political forces in the centre, the mainstream of Russia's Communist party has moved a long way from its Marxist-Leninist roots. In a recent interview with the Financial Times, Mr Zyuganov, the party's leader, displayed a remarkable ideological eclecticism saying he personally drew inspiration from figures as varied as Charles de Gaulle, Stalin, and Tsars Alexander I, II, and even III (who has been demonised by most Communists as the executioner of Lenin's elder brother).

Mr Zyuganov's latest tome, *The Geography of Victory*, which he hands out to visitors, contains barely a mention of Lenin but expounds at length on Russia's unique historical mission. He speaks in favour of freedom of speech and religion, a multi-party democracy, and Chinese-style economic reforms, preserving a strong role for the state while allowing private trade to flourish beneath.

Mr Zyuganov has had kind words to say about Mr Luzhkov. The Moscow mayor was a "well-known and authoritative man" who had shown his ability to manage Russia's biggest city, the Communist party leader claimed. "We support the idea of a coalition," Mr Zyuganov said. "The coalition should suggest not only a candidate for presidency, but a whole team, which would include a vice-president, a prime minister, and other key ministers."

He has good reason to seek such an alliance. Moderate party strategists argue that unless the Communists broaden their political base they will be doomed to perpetual opposition. Although the party can count on a core of support – perhaps 20 per cent of the electorate – it cannot by itself win enough votes to claim the presidency. In the presidential elections in 1996, Mr Zyuganov conspicuously failed to win many "cross-over" voters from other parties and was crushed by Mr Yeltsin in the second round. It would be better to link up with a potentially powerful presidential candidate, such as Mr Luzhkov, than to remain forever on the political sidelines.

From Mr Luzhkov's perspective, there is an equally compelling electoral logic to trying to corrall the Communists behind his cause. The Moscow mayor has proved his appeal in the capital, winning more than 90 per cent of the vote in the 1996 mayoral elections. But he remains weak in the rest of Russia. The backing of the Communist party would bolster his support across the country at a stroke. Mr Luzhkov's arguments for an end to untrammelled capitalism, the return to a strong, interventionist state, and an assertive foreign policy, are close to much modern-day Communist rhetoric.

Yet, however strong the electoral calculus, the creation of a centre-left bloc is far from a done deal. Mr Zyuganov's bridge-building strategy received something of a rebuff at a meeting of the Communist party leadership last week. The party plenum, which still dictates official policy, concluded that the Communists should contest the 1999 parliamentary elections under their own banner. Hardline Communists still remember, with great bitterness, Mr Luzhkov's role in supporting Mr Yeltsin's bloody suppression of the Soviet-era parliament in October 1993.

Many radical Communists also criticise Mr Zyuganov's conciliatory style of leadership. "I do not consider the Communist party leadership to be real Communists," says Rafik Aliev, chief research fellow at the Moscow State Institute for International Relations. "They think that reform can improve what has already been created. It is not possible to be a revolutionary if you drive to work in a Mercedes and have a big flat and a dacha."

More generally, Russia's political landscape is changing with bewildering speed. Alliances rarely last all that long in such a world. Many political calculations are already being thrown askew by the emergence of Mr Primakov as a serious presidential contender in his own right. The prime minister is a centre-left figure himself and the supporters of the Communist party could easily ally themselves behind him. But in fact he draws support from across the political spectrum, including many reformers, so the Communist leadership might not necessarily want him as their candidate. Anyway, he would seriously spoil Mr Luzhkov's presidential pitch.

Even so, compared with their opponents, the centre-left looks like a model of disciplined organisation. Grigory Yavlinsky, the leader of the liberal Yabloko party, has strong – though narrow – electoral appeal but seems disinclined to ally himself with anyone else. Alexander Lebed, the former general turned governor of Krasnoyarsk, is a great populist but is widely viewed as a loose cannon. Some of Russia's most powerful bankers even appear to be toying with the idea of running Nikita Mikhalkov, the handsome and staunchly anti-Communist film director and actor, who would, they believe, win the hearts and votes of every Russian woman.

That looks rather like a sign of desperation. Unless Russia's centre-right forces move towards their own united platform in short order, they risk losing the argument about Russia's political future by default.

OBSERVER

Shortage scare – with a pinch of salt

First onions, then potatoes, now salt. Complex as Indian politics often seems, it usually comes down to the basics, and the price of simple foodstuffs currently has the Bharatiya Janata party in a pickle.

The latest scare is salt. Rumours of a shortage have coursed through India's sophisticated and grapevine, queues have formed at shops, prices have multiplied tenfold and tales of dearth and rationing are sweeping the country.

A panic over soaring onion and potato prices earlier this year forced the BJP-led government to replace the chief minister of Delhi. Now it has arrested dozens of alleged salt hoarders and profiteers and filled newspapers and airwaves with claims that stocks are sufficient for six months. Sushma Swaraj, the feisty but increasingly beleaguered new chief minister of Delhi, rushed to be photographed beside heaps of salt sacks.

There is a whiff of politics about the salt panic. The BJP and its rival Congress are head-to-head in three vital state elections this month – BJP-held Delhi and Rajasthan and Congress-ruled Madhya Pradesh. It's easy enough to plant rumours in India. Handy, too, just before a series of elections.

Moreover, Congress knows that salt can be a very potent political tool. In 1930, Mahatma Gandhi led a march for hundreds of miles across Gujarat province against a British tax on salt, a protest that helped defeat the Raj.

Roche trade

So now we know how Henri Meier, finance director of Swiss pharma giant Roche, earns up to 40 per cent a year on Roche's dwindling cash pile. He punts the markets.

For years, Roche has been earning nearly a third of its profits from Meier's wheeling and dealing, but his strategy was shrouded in secrecy until Switzerland's recent change in stock exchange disclosure rules.

Last week Roche bought a one third stake in Esec, the world's leading supplier of semiconductor assembly machines. Until Roche arrived on the scene it was touch-and-go whether the former high-flying Esec would survive the winter.

The deal has raised a few eyebrows. Rather than buy in the market, Roche bought from Karl Nicklaus, Esec's 61-year-old founder, who appears to have overreached himself 18 months ago when he bought Rolic, another high-tech company, from Roche. Part of that deal is believed to have been backed by Nicklaus's controlling stake in Esec.

Roche insists that Esec is purely a financial investment. The less charitable explanation is that Meier is increasing Roche's exposure to protect an earlier investment that turned sour.

However, Esec's share price is up nearly two-thirds since Roche bought in, so it seems that the stock market still has faith in Meier's stock-picking skills – for the moment at least.

Double vision

One Lafontaine is quite enough for any German chancellor to cope with. Poor old Gerhard Schröder has to deal with two.

Christa Müller, wife of Oskar Lafontaine, Germany's finance minister and Social Democratic party leader, seems to fancy herself as an additional member of Schröder's government team.

Within hours of Schröder taking the oath of office, the blonde 42-year-old popped up on a talk show and called for political control of the Bundesbank. She has repeated the demand – in a joint television interview with her husband – adding a call for higher petrol taxes to boot.

No one denies Müller's qualifications. She is Lafontaine's leading economic guru and helped him write a book about globalisation and employment this year. But is male-dominated Germany ready for a home-grown Hillary Clinton – especially one who attacks such a sacred institution as the Bundesbank? Old hands in Bonn think not. They recall the early 1970s when Etta Schiller, spouse of finance minister Karl Schiller, also got involved with her husband's policymaking.

Schiller eventually resigned – after coming a poor second in a row with the Bundesbank.

Big numbers

It's not often companies fall over themselves to praise a competitor's products. But that's the happy situation in which US-based Iridium finds itself on launching the world's first satellite hand-held mobile phone service.

Craig McCaw, chairman of Teledesic, which hopes to launch a satellite-based internet service in the next few years, says the Iridium development is "truly amazing" and other big competitors are equally gushing.

It's not hard to see why. Satellite phone market players need to raise hundreds of million dollars to fund their own systems. But share prices have been hit by investor doubts – particularly after Globalstar recently lost 12 satellites, a fifth of its total, in a rocket crash in Kazakhstan.

A poor start for Iridium, reckoned to be around 18 months ahead of competitors, would only further undermine confidence in a market yet to dial "s" for success.

The Financial Times

100 years ago

The Dreyfus Inquiry
Paris, 3rd Nov. The "Matin" states that the Court of Cassation has already examined the alleged confession of Captain Dreyfus on the day of his degradation, and has come to the conclusion a priori that he would never have made any confession under the circumstances alleged. Before settling the point the Court will privately take the evidence of all the ex-Ministers of War acquainted with the affair, and of the officer who recorded the confession, and perhaps of Dreyfus himself. It is stated that, in view of the re-assertion that no intimidation will be permitted, the general officers acquainted with the affair will disclose everything at the forthcoming inquiry.

50 years ago

President Truman Re-elected
New York, Nov. 3. President Truman has won America's closest presidential election since 1916. This afternoon the Republican candidate, Mr Dewey, conceded the election to Mr Truman, declaring that Mr Truman was sure to win an electoral college majority. Senator Alben W. Barkley becomes Vice-President.

FINANCIAL TIMES

WEDNESDAY NOVEMBER 4 1998

THE LEX COLUMN

Stateship enterprise

Is enterprise replacing productivity as Gordon Brown's favourite word? On yesterday's evidence, it looks a close run thing. When the UK finance minister first got a bee in his bonnet about productivity, such rhetoric would have been hard to predict. But it is no less healthy for that. Though British industry can always be more efficient, the real challenge is not to grind down further on the cost base but to raise its aspirations.

Peter Mandelson, trade and industry secretary, is an even more convincing advocate of this message. "We need a revolution in ambition – for the real weakness in this country is a lack of ambition compounded by [an] attitude to wealth creation that borders on the apologetic," he said earlier this week.

Just pause a moment. The liberal use of terms like enterprise, wealth creation and ambition shows how far the Labour party has travelled. One can, of course, take a cynical line. If the goal is enterprise, should not government just get out of business's hair?

To a large degree, yes. But, provided the guiding light is wealth creation, government can do modestly useful things. Indeed, the string of initiatives announced yesterday looks promising: a doubling of employee share ownership, establishing enterprise institutes in universities, pension fund democracy, a boost to venture capital and a review of bankruptcy law to reduce the stigma of failure. Moreover, the change in rhetoric – if consistent and sustained – will affect the cultural climate in which business operates. That is not to be sniffed at.

US M&A

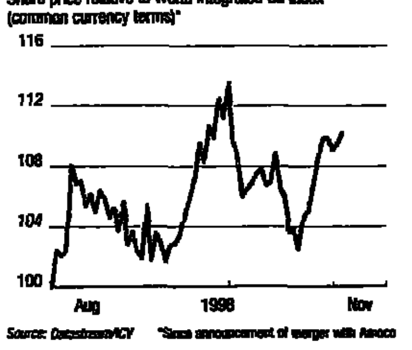
Life is creeping back into the mergers & acquisitions market. US domestic deal volume increased to $63bn last month, almost double September's lows, though still well below its spring peak when transactions sometimes topped $100bn per week. Encouragingly, there has also been a return of $1bn-plus deals, such as this week's $3.6bn takeover of Sofamor Danek by fellow medical devices maker Medtronic.

This resurgence correlates neatly with the rise in the stock market, which has gained 15 per cent since mid-September, helping to fuel a revival in managements' confidence. Nevertheless, the character of M&A deals has started to change. In the current climate, companies are more willing to go hostile and more likely to use cash: 70 per cent of September's deals were for cash, against 30 per cent in the previous eight months. And although larger deals are making a comeback, there has not been a mega-merger since BP/Amoco nearly three months ago.

Many of the forces that have driven the M&A boom over the past three years remain in place. Consolidation in industries like media, banking and telecommunications has further to run. Most companies continue to experience sluggish top-line growth and pressure from shareholders to divest non-core operations. But it is worth remembering that it took seven years to surpass the peak volumes set in 1988. This year's record may prove similarly hard to beat.

BP

Share price relative to World Integrated Oil index (common currency terms)*



Source: Datastream/ICV *Since announcement of merger with Amoco

British Petroleum

The bad times just keep on rolling for the oil industry. Nevertheless, yesterday's results from British Petroleum provided some cheer. A 35 per cent fall in third quarter profits may look disappointing against Exxon's 23 per cent drop and Eni's spirited 19 per cent rise, but is respectable in the context of the other majors. Profits at both Texaco and BP's merger partner, Amoco, fell by more than 50 per cent, and Shell's figures tomorrow are unlikely to make pretty reading either.

Volume growth and cost cutting, which have together boosted net income by $250m since the start of the year, have helped BP make a decent fist of a $13 per barrel oil price. It remains on track to lift earnings by $2bn by 2002. But it is the prospect of a juicier bone for Sir John Browne, BP's chief executive, to chew on – in the form of Amoco's slacker cost base – that is driving BP's 21 per cent outperformance since the merger announcement.

With BP at a 20 per cent discount to Exxon on the basis of price/cash flow multiples for 2000, investors still need some convincing that just catching up with Exxon in size is sufficient to merit a re-rating. Next July's performance targets for the combined group will be the first real test.

Marks and Spencer

Britain's best retailer has suffered a fearful drubbing. Just when Marks and Spencer needed a fair wind to tide it over ambitious spending plans, the weather turned foul; Asia fell off the cliff and the pound stayed obstinately high. Overseas profits collapsed. But the last cut has been the cruellest – UK consumer spending has collapsed at a pace probably not seen in nearly 20 years. The upshot: first half profits fell 23 per cent, with no respite in sight. The shares are some 40 per cent below their 1997 peak.

For all that, Sir Richard Greenbury, chairman, was in defiant mood yesterday. Yes, he is pulling every lever at his disposal to protect short-term profits. Yes, the company is rowing back on its capital spending plans. But no, there is no retreating on the ambition to be a global retailer, merely a slowing of the pace. Sir Richard is right to stick to his guns. M&S's strategy is correct in principle, even if the communication was ineffective. True, the company was too slow in responding to a market moving away from it, but this is easily enough set right.

Looking ahead, few companies can match M&S's strength in adversity – strong balance sheet, unique supplier relationships, high market share and low cost base. With the sector in such a dire state, there is no hurry to buy the shares, even after their recent fall. But if Christmas should mark a turn in fortunes, it may be time to buy.

Russia opposes attacks on Iraq over weapons dispute

By Our International Staff

Russia yesterday opposed the use of force to compel Iraq to comply with United Nations resolutions and said it would intensify diplomatic efforts to ensure Iraq co-operated with UN weapons inspectors.

The Russian calls for a peaceful resolution of the Iraqi crisis came as William Cohen, the US secretary of defence, arrived in the Gulf for talks with Arab allies over the dispute. He flew into Saudi Arabia yesterday after talks in London and Vienna, and is expected to head to Kuwait today.

Mr Cohen and George Robertson, the UK defence secretary, said the use of force was an option to punish Saddam Hussein, Iraq's president, and force him to reverse his block on weapons inspections.

But Igor Ivanov, Russia's foreign minister, said on Russian television: "We will not allow a further escalation of tensions in the Persian Gulf. I continue to believe that peaceful means to solve this problem have not disappeared." The US has the aircraft carrier Eisenhower and 20 other ships in or near the Gulf, with seven capable of firing long-range Tomahawk cruise missiles. It also has 174 aircraft in the area, according to the US defence department.

The US and UK were close to striking Iraq in February when Mr Saddam barred inspectors from visiting presidential sites. But the use of force was averted in a last-minute agreement between Iraq and Kofi Annan, the UN secretary-general.

Mr Saddam has essentially crippled the system of inspections by Unscom, the UN agency charged with Iraqi disarmament. Only the International Atomic Energy Agency is allowed to continue monitoring and verification work, and sensors and cameras installed at sites by the UN will continue operating.

Despite US and UK threats this week, there were doubts about the willingness of the US to use force over what it calls a "flagrant violation of UN resolutions". This is because the two main US priorities in its policy toward Iraq are arguably being met. First, in the absence of hard evidence to the contrary, Mr Saddam is being contained and poses no threat at the moment to Iraq's neighbours. Second, a tough sanctions regime remains in place.

With Russia, China and France sympathetic to the Iraqi position, Washington's priority is to show Mr Saddam the security council remains united in condemning his moves and the international community and Arab governments continue to demand that he complies with UN resolutions.

The security council, having unanimously condemned Iraq's ending of co-operation with UN weapons inspectors, was last night scheduled to start work on a follow-up resolution.

Britain proposed that the resolution demand the immediate, unconditional rescinding by Iraq of its decision to end co-operation.

But the proposal contained no mention of possible military action, and diplomats stressed that the immediate goal was to retain the support of Russia, France and China.

Bangkok to contract out city services in bid to beat pollution

By Ted Bardacke in Bangkok

Bangkok yesterday launched an ambitious plan to contract out city services worth considerably more than $1bn to private companies in an attempt to contain the environmental problems in Asia's most polluted metropolis.

The Asian economic crisis has made it hard to raise funds for large infrastructure projects. But Bangkok has "tremendous environmental problems which the public services simply do not have the resources to deal with", said Bichit Rattakul, the city's governor.

Mr Bichit, elected two years ago on an environmentalist platform, said some contracts would be service agreements, with the city retaining custody of basic infrastructure. Others would be for private groups to build and own infrastructure.

Private companies will collect garbage from commercial buildings, hotels, shopping centres, apartment buildings and construction sites. They will be responsible for collecting fees and will pass on the rubbish to one of three new treatment facilities, also to be owned and operated by the private sector.

The solid waste programme will cost at least Bt34bn ($926m). Implementation is scheduled to begin in the fourth quarter of next year.

For water treatment, the city will invite bids for operation and maintenance contracts for five city-owned treatment plants, four of which are still under construction. Future treatment plants will be built, owned and operated by the private sector.

Other areas opened up for the private sector include the building of flood-control channels worth Bt5.3bn, construction and operation of six parking garages worth at least Bt1bn, service contracts to monitor and control air and noise pollution, and a $370m elevated light-rail system that will act as a feeder line for a central city electric train project nearing completion.

Mr Bichit said soft loans and grants for some projects could be made available by the Japanese Overseas Economic Co-operation Fund and the World Bank. The city was also exploring ways to provide partial guarantees for the debt of private sector companies that provide essential city services.

The history of private operations in Bangkok infrastructure and services is patchy. The private urban bus operator is losing money and deeply in debt. United Utilities, the UK water and power supplier, cancelled a contract with the Bangkok government earlier this year due to non-payment, although Thames Water of the UK has successfully completed a water supply system on the northern edge of Bangkok.

Part of the problem has been the lack of clarity in contracts with the private sector. Mr Bichit pledged to address this but said dealing with the city and government agencies "won't go along at the pace business is accustomed to.... It will be difficult and hectic". Most private infrastructure developments in Thailand have been joint ventures between Thai and foreign companies.

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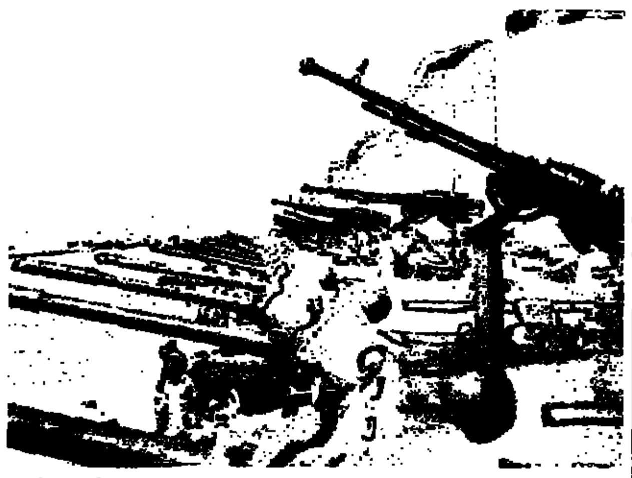

Iranian tanks prepare to attack a mock enemy at the end of war games near the Afghan border yesterday Picture: Reuters

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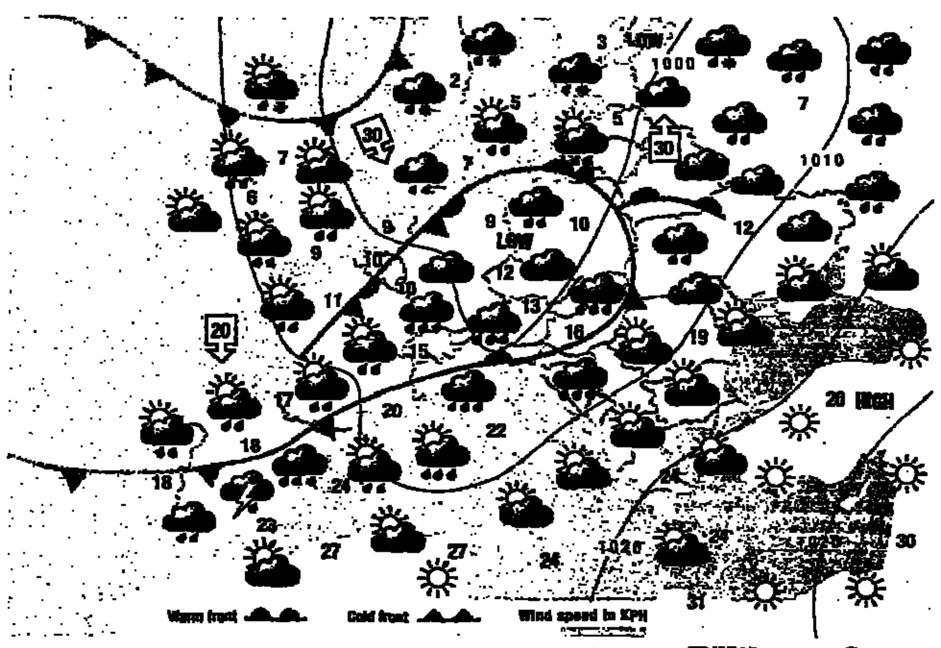
FT WEATHER GUIDE

Europe today

Bands of heavy rain will move south towards the Mediterranean and eastwards into Poland and western Russia. The south of France will have more widespread cloud and prolonged heavy rain. Heavy, thundery rain will also push across the Iberian Peninsula and northern Italy. Scandinavia will be cold and showery with fresh falls of snow over the mountains. In contrast, high pressure will bring hot sunshine to the eastern Mediterranean.

Five-day forecast

An area of high pressure will move eastwards from the Atlantic tomorrow and will then expand to cover much of western Europe bringing about a more settled spell for the rest of the week. Scandinavia will have a lot of showers. There will be further outbreaks of rain across the central and western Mediterranean.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	29
Accra	Sun	32
Algiers	Fair	27
Amsterdam	Shower	9
Athens	Fair	24
Atlanta	Fair	15
B. Aires	Fair	24
B.ham	Fair	8
Bangkok	Fair	33
Barcelona	Rain	19
Beijing	Sun	13
Belfast	Shower	6
Belgrade	Rain	20
Berlin	Rain	10
Bermuda	Fair	28
Bogota	Cloudy	20
Bombay	Sun	33
Brussels	Shower	10
Budapest	Shower	16
C.hagen	Rain	7
Cairo	Sun	26
Caracas	Thunder	29
Cardiff	Fair	8
Casablanca	Sun	24
Chicago	Fair	6
Cologne	Shower	11
Dakar	Fair	33
Dallas	Fair	16
Delhi	Sun	29
Dubai	Sun	32
Dublin	Shower	7
Dubrovnik	Thunder	20
Edinburgh	Fair	7
Faro	Shower	22
Frankfurt	Shower	10
Geneva	Rain	15
Gibraltar	Shower	23
Glasgow	Shower	7
Hamburg	Shower	10
Helsinki	Sleet	3
Hong Kong	Fair	25
Honolulu	Shower	30
Istanbul	Fair	21
Jakarta	Thunder	32
Jersey	Shower	10
Johannesburg	Th	24
Karachi	Sun	34
Kuwait	Sun	35
L. Angeles	Sun	21
Las Palmas	Fair	28
Lima	Fair	21
Lisbon	Shower	18
London	Shower	9
Lux.bourg	Rain	10
Lyon	Shower	15
Madeira	Fair	24
Madrid	Rain	18
Majorca	Shower	24
Malta	Sun	24
Manchester	Shower	7
Manila	Fair	30
Melbourne	Fair	28
Mexico City	Sun	23
Miami	Thunder	29
Milan	Rain	17
Montreal	Fair	4
Moscow	Rain	7
Munich	Rain	10
Nairobi	Sun	27
Naples	Shower	23
Nassau	Thunder	30
New York	Fair	10
Nice	Shower	20
Nicosia	Sun	27
Oslo	Hail	4
Paris	Shower	11
Perth	Sun	26
Prague	Shower	12
Rangoon	Fair	34
Reykjavik	Fair	0
Rio	Cloudy	26
Rome	Cloudy	22
S. Frsco	Cloudy	17
Seoul	Sun	14
Singapore	Thunder	31
Stockholm	Shower	5
Strasbourg	Shower	12
Sydney	Sun	25
Tangier	Shower	22
Tel Aviv	Sun	30
Tokyo	Fair	21
Toronto	Shower	4
Vancouver	Rain	11
Venice	Rain	15
Vienna	Rain	13
Warsaw	Rain	11
Washington	Shower	10
Wellington	Fair	15
Winnipeg	Sunny	0
Zurich	Shower	12

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 — WEDNESDAY NOVEMBER 4 1998 — Week 45

INSIDE

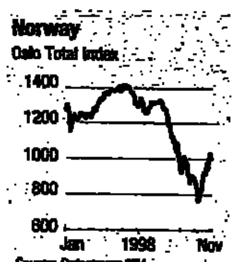
Wall St dogs have their day

Some of the dogs of the US stock market have finally had their day. The remarkable 16 per cent bounce in the Standard & Poor's 500 index since the market touched bottom on 31 August has been characterised by the rebound of some chronically underperforming stocks. Gold and precious metals companies, drilling equipment companies and managed care providers are all up impressively. **Page 18**

BHP's diamond triumph in Canada

The opening of the Ekati diamond mine in remote northern Canada is a triumph for Broken Hill Proprietary, the Australian group. It has spent several years and US$700m establishing the mine in a region with temperatures of minus 50 degrees Celsius while contending with the demands of native Indians. **Page 26**

Oslo makes record recovery



Oslo remains one of the stronger performing stock markets since European equities started to recover last month. Never before has the Norwegian share market risen so far in such a short space of time. Prices have increased on the back of positive economic news from abroad such as the refinancing plan for Japanese banks and the recent cuts in US interest rates as well as the improved oil price. **Page 36**

Russia welcomes De Beers deal

The cash-strapped Russian government welcomed a marketing agreement between Almazy Rossii-Sakha, the country's biggest uncut diamond producer, of which it owns 32 per cent, and South Africa's De Beers. **Page 26**

'Modern' Hyundai prepares future

Share prices for listed companies of Hyundai, South Korea's largest conglomerate, or *chaebol*, have fallen 33 per cent, the second worst performance among the nation's top five business groups. But Hyundai, which means "modern", may be the first big *chaebol* to streamline its industrial empire as it finds the Won7,600bn ($5.76bn) it needs to absorb Kia, the insolvent Korean motor group. **Page 21**

Death of key figure in US gold

Bob Smith, vice-chairman of Barrick Gold, who died last week aged 66, was a key figure in the revival of North America's gold mining industry in the 1980s. **Obituary, Page 26**

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

Nabisco shares show 20% surge

Speculation over possible sale of overseas tobacco business

By Richard Tomkins in New York

Shares in RJR Nabisco, the US tobacco and food group, have surged by more than 20 per cent in recent days amid speculation that the company is about to sell or spin off R.J. Reynolds International, its overseas tobacco business.

But British American Tobacco, the UK-based cigarette maker regarded as the most likely buyer, yesterday sought to dampen speculation of a purchase, citing tax implications and other obstacles. RJR Nabisco declined to comment.

Reynolds International, which had sales last year of $3.4bn, is one of the biggest multinational competitors in the global tobacco industry.

Its Camel and Winston cigarettes rank among the top 10 international brands, and Salem is the world's best-selling menthol cigarette.

The company also makes many regional and local brands, including Peter I, the best-selling filter cigarette in Russia.

However, the business has run into difficulties because of its heavy exposure to Russia and other eastern European markets hit by deteriorating economic conditions.

In the quarter to September 30, Reynolds International's sales fell by 19 per cent to $735m and its operating profits tumbled 52 per cent to $95m.

In contrast, Philip Morris, the biggest US tobacco company, increased international tobacco profits by 11 per cent to $1.4bn.

Martin Feldman, a tobacco analyst at Salomon Smith Barney, has been telling clients that he expects Reynolds International to be spun off or sold, possibly in a deal with BAT or in piecemeal transactions.

RJR Nabisco has long been under pressure to split its tobacco and food businesses, but plans to do so have been stymied by worries that anti-tobacco litigants would sue to prevent a spin-off. That threat seems likely to ease in the near future because US tobacco companies are close to settling the biggest lawsuits pending against the industry – those brought by states suing for the cost of treating sick smokers. RJR Nabisco's shares have risen from just over $24 to more than $29 since the beginning of last week.

Yesterday, they were up $¼ at $29¾ in early afternoon trading.

BAT said it had already built up its own business in markets where Reynolds International operated.

It added that an outright acquisition would be taxed by the US government, so if after-tax proceeds were satisfactory to RJR's shareholders, the pre-tax figure would most likely be higher than BAT's shareholders would be prepared to pay.

Eurobond issues signal revival of investor demand

By Edward Luce and Khozem Merchant in London

The eurobond market has sprung back to life this week, having been effectively ruled out to all but the most highly rated borrowers since August.

European and US companies, such as Akzo Nobel, the Dutch chemicals group, and Household Finance, the US home improvement lender, issued large-scale eurobonds yesterday and on Monday in the strongest sign yet that the European investor base is regaining an appetite for risk.

Sprint, the US telecommunications company, and Bertelsmann, the German media company, are both expected to take advantage of the return of liquidity to Europe with international bond issues in the next few days. Other borrowers thought to be preparing to tap the markets include DNN, the Dutch chemicals company.

Argentina yesterday launched a $300m eurobond in a further sign of renewed investor demand. "The eurobond market is open again," said Eamonn McConnell, head of the bond syndicate at Deutsche Bank in London. "But we don't expect to see the return of the bull market."

Bankers attribute the revival in risk appetite to the stabilisation of international bond and equity markets in the last two weeks. The yields on the benchmark government bonds, such as German bunds, have risen markedly in the last fortnight, having been driven sharply downwards over the previous two months as a result of the investor flight to safety.

The yield on the German 10-year bond has risen to 4.2 per cent from a low of 3.88 per cent in early October. The yield on the 30-year US Treasury bond has similarly risen to 5.2 per cent after touching a historic low of 4.77 per cent on 5 October. This indicates that investors have been moving out of the leading government bond markets and expressing more confidence in lower-rated securities, such as corporate bonds.

"Some investors are remaining heavily in cash out of nervousness about the market, but there are enough investment funds returning to the mainstream bond markets to bring it back to life," said the head of bonds at one US bank in London.

The trend has been boosted by the high level of redemptions of existing corporate bonds in the last two months. When a bond matures, the investor receives the original principal which is then usually re-invested in new bond offerings.

"There's a lot of cash sitting out there and spreads [risk premiums] are looking very attractive," said one trader.

The market revival has also been stimulated by buoyancy in the US domestic bond market.

Bonds, Page 24

Cider trading: Canandaigua Brands, US drinks producer, has bought Matthew Clark, the UK's troubled cider maker and producer of the Diamond White brand, in a £215m ($363.35m) agreed takeover. Canandaigua said: 'Our most immediate focus will most likely be in distilled spirits.' Report, Page 22 Picture: Ashley Ashwood

Kvaerner shares fall 15%

Troubled shipbuilder warns of weakened results

By Valeria Sköld in Oslo

Shares in Kvaerner tumbled 15 per cent yesterday after the troubled Anglo-Norwegian engineering and shipbuilding conglomerate warned it expected a "significant weakening" in third-quarter results.

In the latest setback, the company blamed provisions for losses on some projects and write-downs of assets, based on a preliminary evaluation of the group's books by external auditors Arthur Andersen. Kvaerner also said operations had been affected by the overall weakness in its markets.

The warning came days after Kvaerner appointed Kjell Almskog, executive vice-president of Swiss-Swedish industrial group Asea Brown Boveri, as its new president and chief executive.

Mr Almskog will succeed Erik Tonseth, who was forced to step down last month after 10 years as chief executive, following a steep fall in profits. In the first half of this year, Kvaerner profits fell from NKr840m ($115m) to NKr266m.

"The overall weakening is not Kvaerner-specific problems, but general market problems," said Christian Bjelland, Kvaerner chairman and temporary chief executive, who declined to give any figures.

"The asset write-downs will be on our assets on our books as well as shares in other companies," he added.

In Oslo, Kvaerner shares closed NKr28.50 lower at NKr164.50, wiping out many of the gains made since Mr Almskog's appointment. Shares were trading as low as NKr75 before Mr Tonseth was ousted, compared with an all-time high of NKr480 in August 1997.

Although Mr Almskog has not started work at Kvaerner, he will take part in further evaluations before third-quarter results on November 16.

Separately, Kvaerner said it had sold an 18 per cent stake in Western Bulk, the Norwegian shipping company, for less than NKr40m, representing a loss of NKr59m.

UEM puts off loan interest payments

By Sheila McNulty in Kuala Lumpur

UEM, the Malaysian toll road operator forced last year to bail out its troubled parent Renong, the well-connected infrastructure conglomerate, is to defer interest payments on loans totalling M$2.92bn ($768m).

UEM – once favoured by investors because its toll operations generated steady cash flow – said yesterday it had notified its lenders of the deferral while it restructures its debt over the next six months.

Its announcement is the latest indication of the financial problems facing many Malaysian companies.

The move followed an announcement on October 9 that the combined Renong-UEM group would be the beneficiary of a M$10.5bn government-sponsored debt restructuring.

Analysts had been expecting the government to provide further assistance to the group after it promoted the rescue late last year of Renong, which was in effect controlled by the United Malays National Organisation, the country's dominant political party.

UEM borrowed M$2.4bn to buy a large stake in Renong. The takeover was widely interpreted as a politically sanctioned bail-out of a heavily indebted parent company by its subsidiary. It prompted an exodus from the two companies' shares by investors.

The interest payment deferral underlined the extent of the financial problems still facing the Renong-UEM group. But the government has been able to continue to support the group without facing renewed adverse investor reaction because of the stringent controls on capital flows and stock market trading introduced in September.

In the bail-out, the authorities granted Renong and UEM special privileges, which analysts felt demonstrated the government's lack of commitment to institutional regulations and transparent corporate governance. The privileges included a waiver to UEM, excusing it from having to make a general offer for the remaining shares of Renong.

UEM said the interest obligation of the company and its relevant subsidiaries amounted to M$6.16m on October 30.

BARRY RILEY

Ominous symptoms of recession are apparent

Securities markets have been puzzling over how to adjust to the deceleration being suffered by the economies of Europe and North America. After the wild movements in the late summer, however, the markets have settled back into a mood of relative optimism. Crucially, government moves to stimulate are viewed positively rather than negatively as indications of a worsening economic environment.

The UK's economy, in particular, seems to be dropping off the metaphorical cliff, providing an uncomfortable background for yesterday's preliminary Budget statement. Although the historical statistics up to September appear solid enough, the inventory adjustment that typically triggers a recession now appears to have got under way. Opinion surveys from the Confederation of British Industry and the Purchasing Managers' Institute, at face value, appear to warn of a setback at least as bad as that in the early 1990s; true, these surveys mainly relate only to manufacturing industry.

Continental Europe is also slowing sharply. US consumption remains the last powerful engine for the global economy, and it remains to be seen how it can avoid stalling as the balance of payments weakens and the dollar is destabilised. An inventory build-up is also evident in the US. As always the markets are torn in two directions. Short-term interest rates have a long way yet to fall in the US and the UK. On the other hand, the fixed income markets may have to adjust to a greatly increased rate of issuance of government bonds over the next two years. As for equities, profits are going to be hit quite badly: ominously, yesterday's serious earnings setback for Marks and Spencer, the UK's top retailer, was the first since 1991.

The UK draft Budget gave a typical demonstration of how politicians react to the danger of an impending recession. First, they say a slowdown is a necessary evil in order to get back on to a long-term growth path. Secondly, their forecasters underestimate the severity of the cyclical decline.

The last recession had a tremendous financial impact. Net issuance of bonds by the G10 governments soared from $160bn in 1988 to a peak of $730bn in 1993, according to the latest statistical digest from Barclays Capital. During the year ended in June, after a long economic upswing, the total was down to $265bn (excluding Japan, the decline was from $660bn to $150bn).

There are new constraints such as the euroland "stability pact" and the UK chancellor Gordon Brown's "golden rule", designed to prevent a similar debt explosion in future. But we can be confident that such self-discipline would not survive the desperate prioritisation imposed by a significant recession.

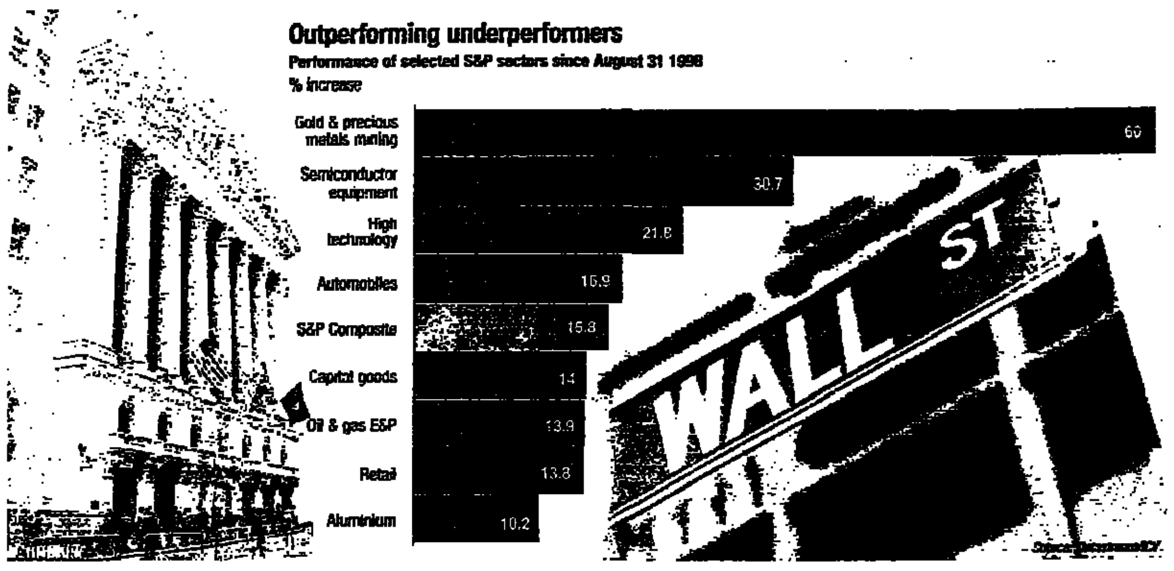
Already the US Treasury long bond yield has risen from a low of 4.7 per cent to 5.2 per cent. Fears of a shortage of government bonds are waning. In the UK, pressure from regulators and actuaries on pension funds and life companies has caused them to keep on buying gilt-edged at some £4.5bn ($7.6bn) a quarter – well above the government's net issuance rate, creating a scarcity premium as other investors are flushed out by low yields. One consequence is the remarkable widening in corporate bond spreads. These effects will unwind in due course, however.

After wobbling, the psychology of the markets is generally positive. Equities have recovered strongly in the past month – by 17 per cent as measured by the FT/S&P Actuaries World Index. The bounce has encouraged one frustrated bear, Albert Edwards, global strategist at Dresdner Kleinwort Benson, to construct a "denial indicator", which currently shows that stock market analysts in the US and Germany are the most guilty of turning a blind eye to economic reality.

Perhaps, indeed, co-ordinated stimulation by governments will head off a recession. But we should not count on it.

Technology still best of breed but stock-market underdogs bark again

Long-underperforming shares have rebounded as US stocks rally, writes **Richard Waters**



Some of the dogs of the stock market have finally had their day.

The remarkable 15.8 per cent bounce in the Standard & Poor's 500 index since the market touched bottom on August 31 has been characterised by the rebound of some chronically underperforming stocks.

But it has also featured something far more familiar: the continued advance of the technology sector. With financial stocks also beginning to recover on hopes of further interest-rate cuts, the powerhouses of technology and finance, so dominant during the 1990s bull market, could yet return as the twin pillars of the latest stock-market rally.

Among the dogs, gold mining companies have held little attraction in an era when paper assets have become the investment of choice. Companies making oilfield drilling equipment have also suffered from slumping commodity prices. And managed healthcare providers, battered by a political onslaught over the declining quality of care and a series of management failures, have become stock market outcasts.

These perennial underperformers are among the companies which have bounced spectacularly in the past two months, as the US stock market has lurched its way through a powerful rally. A rebound in early September ran out of steam as fears spread that financial market turmoil would spill into the real economy. But the rally sparked by the second US interest-rate cut, in early October, has proved more durable.

Gold and precious metals companies have risen about 60 per cent from the low point, while drilling equipment companies are up 33 per cent and managed-care companies are 30 per cent ahead.

To a large extent, moves like these appear to reflect rebounds from very low valuation levels, rather than a belief that these sectors hold the key to the next leg of the stock market rally, according to Wall Street analysts.

While some argue that commodity stocks have reached a bottom – including Byron Wien at Morgan Stanley Dean Witter – most still hold that Asia's troubles and a slowing global economy next year will keep the lid on any price rises.

Significantly, the gold, drilling and managed-care sectors have each underperformed the S&P500 index by at least 10 per cent since the start of the year, despite their recent rallies.

Other commodity-based companies, or those in low-value-added industries that are vulnerable to global overcapacity, have experienced similar difficulties.

Besides a hunt for value, the recent rally has been characterised by a shift away from companies most vulnerable to a downturn in emerging market and towards those deemed to have more reliable revenues, particularly from domestic sources. Coca-Cola is still nearly 20 per cent below its peak – but tobacco companies and telecommunications carriers have stormed ahead, thanks to a belief that their revenue growth is likely to remain resilient.

Meanwhile, two long-term favourites of US investors remain high on many Wall Street analysts' recommended lists. "We thought [the fall in] the finance sector was overdone – and we still like technology," says Leah Modigliani, an analyst at Morgan Stanley.

Financial stocks are still well below their peaks. Merrill Lynch and Morgan Stanley, which are vulnerable to disruption in the financial markets, are more than a third short of their peaks, even though their share prices have jumped more than 50 per cent in less than a month.

Further US interest rate-cuts would help to ease the high risk premiums that have crept into the credit markets and bring a positive tilt back to the US yield-curve, says Jeffrey Applegate, US equity strategist at Lehman Brothers. Both of these would restore confidence in the financial sector.

Most technology companies had less ground to make up after August, and many have leapt to new heights. The sector's advance has come despite an expected slowdown in capital spending in the US as companies tighten their belts. Technology equipment has accounted for a half of all capital investment in the boom years, according to Mr Applegate. He adds, though, that it is the other half – bricks and mortar and other types of equipment – that will bear the brunt of the spending cuts, and that consumer spending will offset some of the pain.

The technology sector – more specifically, the internet – has also provided some of the most spectacular recoveries of recent weeks. Two months ago, internet stocks were floundering amid concerns they had risen too far too fast.

That now look overdone. Both America Online and Amazon.com have returned to their July peaks this week: each company's shares has advanced at least two-thirds in value since the market bottomed. Yahoo!, meanwhile, has stormed to new records, nearly doubling in that time. "I can't find many companies on this planet growing at 60 per cent a year," said Mr Applegate.

Initial approval given in US for SangStat drug

By David Pilling, Pharmaceuticals Correspondent

SangStat, a Californian transplant specialist, yesterday won the first US regulatory approval for a generic version of cyclosporine, an immunosuppressant that helps prevent rejection of transplanted organs.

SangCya will be sold at a 20 per cent discount to Novartis's Neoral, the top seller in the world $1.3bn cyclosporine market.

Cyclosporine, Novartis's leading product, was developed from a fungus found in Norwegian soil.

Its launch in 1983 transformed the transplant market which had hitherto been plagued by organ rejection.

SangStat estimates that its compound, which must be taken for life by transplant patients, could save an annual $1,200 for each patient. There are about 250,000 organ recipients worldwide.

Daniel Vasella, chief executive of Novartis, said the fact that SangCya was in liquid, rather than capsule, form would blunt its challenge.

"I don't anticipate it will be a very rapid erosion of our business but ... it is a clear signal that we have reached peak sales of [cyclosporine]," he said.

Philippe Pouletty, managing director of SangStat, which in October paid $31m for the transplant division of France's Rhône-Poulenc, said the company hoped to move into profit 12 months after the launch of SangCya.

SangStat shares gained 3\frac{7}{16}$ to 25\frac{1}{16}$ at mid-day, while Novartis shares slid SFr23 to SFr2,475.

ABN Amro, Mellon in tie-up

By Jane Martinson, Investment Correspondent

Mellon Bank of the US and ABN Amro Bank of the Netherlands yesterday announced a global alliance to provide custody services around the world.

The joint marketing and servicing alliance, to be called ABN Amro Mellon Global Securities Services, covers assets worth more than $2,550bn.

The bulk of these, or more than $2,000bn, are managed or serviced by Mellon in the US.

The bank, which is based in Pittsburgh, is one of the largest global custodians in the world.

Dan Wywoda, head of Mellon's global custody services in Europe, said the tie-up would provide the opportunity to improve and increase services outside the US. "ABN Amro is a world class organisation which is noted as a global bank," he said.

Mellon has pursued a strategy of alliances with local partners to further its global ambitions rather than direct takeovers. It already has a series of alliances with other financial organisations such as CIBC in Canada and Den Danske in the Nordic countries.

It also has separate alliances covering Spain and Portugal. None of these will be affected by yesterday's deal, which covers all other parts of the world.

Custody, long regarded as a relatively dull area of finance because of its low margins, has become much more desirable in the past few months.

Shares in the four banks with the heaviest concentration on custody businesses in the US – Bank of New York, Mellon, Northern Trust, and State Street – have all weathered the global financial storm of the past three months much better than their peers. Between them they have outperformed the US banking sector as a whole by almost 12 per cent so far this year.

ABN Amro, which has total assets under custody of more than $550bn, has an international network of 1,900 offices in 71 countries. It first entered the custody business 80 years ago.

Rijnhard can Tets, chairman of the bank's investment banking business, said: "This alliance underlines once again our commitment to meeting the evolving requirements of our key clients."

Store wars: Empire strikes back

Canadian supermarkets react to fears of expansion by US groups with acquisitions

By Scott Morrison in Toronto

It has been an unprecedented week in the Canadian food retail and distribution industry, where supermarkets have traditionally remained focused on their regional markets.

A trio of acquisitions over the past seven days has moved two groups closer to establishing a strong national presence.

The deals were in response to intensified competition within the industry, as growth in the Canadian food retail market has slowed.

The Canadian groups were also responding to concern that US retailers might expand into Canada, and analysts noted that stock valuation differentials made it an opportune time for some groups to strike.

On Monday, Empire agreed to acquire the rival Oshawa for C$1.5bn (US$974m) in cash and shares. That would establish Empire's Sobeys chain as the second largest Canadian food retailer and distributor, with annual revenues of about C$10bn.

The transaction was announced only days after Loblaw, the nation's top supermarket group, offered to acquire Provigo, the largest Quebec chain, for C$1.6bn. This deal would extend Loblaw's national reach and give it annual revenues of C$17bn.

Wal-Mart is testing the sector in Canada by establishing food sections at three Ontario stores

Loblaw further strengthened its position on Monday afternoon by agreeing to acquire Oshawa's outlets in eastern Canada. Empire and Sobeys moved to divest those assets because it was likely the combination of their Atlantic Canada outlets would likely have been frowned upon by the federal competition authorities.

These recent transactions have established three top food retailers and distributors in Canada. US-owned Safeway, the other major food retailer, has a strong presence in western Canada, but it is not clear whether it has plans to expand eastwards.

The three groups are having to battle for market share and higher returns even though nominal growth in the sector has slowed to less than 3 per cent, roughly equivalent to Canada's inflation rate and its population increase. A renewed trend towards dining out has further challenged grocers.

Merging operations provides food retail and distribution groups with a number of cost-saving synergies, such as increased purchasing power and reduced overhead and distribution expenses.

Furthermore, larger groups are better positioned to finance the capital expenditure needed to upgrade stores and install the latest technologies.

The flurry of Canadian acquisitions has been also spurred by consolidation among US food retailers. Kroger, the US supermarket group, said recently it would acquire the rival Fred Meyer for US$11.8bn to regain its standing as the nation's largest supermarket chain.

Safeway and Albertson, the second and third largest supermarket chains in the US, have also moved aggressively to expand over the past year.

The threat to US grocers has come from mass retailers such as Wal-Mart and, to a lesser extent, K-Mart, as they move into food sales. Wal-Mart is testing the sector in Canada by establishing food sections at three Ontario stores. The potential threat from Wal-Mart and possibly the US supermarket chains has Canadian food retailers looking over their shoulders as they attempt to strengthen their market position.

"It's just a matter of time before [the US chains] look to Canada and that is a scary thought [for Canadian supermarket groups]," said one industry analyst.

PDVSA details gas contract

By Raymond Colitt in Caracas

An international energy consortium won a 20-year contract to build, own, and operate a gas compression facility in eastern Venezuela, Petróleos de Venezuela (PDVSA), the state oil company announced yesterday.

The consortium is made up of El Paso Energy International, General Electric Capital Corporation, both of the US, and Nissho Iwai, of Japan.

The project, the largest of its kind in the world, is to be completed by mid-2001 and will cost some $400m, PDVSA said.

The plant is to produce 1.2bn cu ft of compressed gas a day, which will be injected into nearby oil fields to boost oil production levels.

This will permit the recovery of an additional 300m barrels of light crude oil from the Santa Barbara-Pirital area in the eastern state of Monagas, which boasts oil reserves of 6.9bn barrels, one of the largest fields in the country.

NEWS DIGEST

PROPERTY

TrizecHahn cash flow rises on rental income

TrizecHahn, the Canadian real estate group, reported a 52 per cent rise in cash flow in the third quarter on the strength of rapidly growing rental income from its expanding portfolio of US office buildings. Rental income from office properties, two-thirds in the US, rose 80 per cent over the corresponding period to US$119m as occupancy and rental rates both increased.

Operating cash flow per share of 43 cents was in line with analysts' expectations, up from 30 cents in the third quarter of 1997. Trizec shares were trading down 25 cents at C$29.55 at mid-day.

Trizec has nearly completed an ambitious overhaul in which it has sold 17 retail properties for $2.1bn, generating net profits of about $1bn, and has embarked on aggressive acquisitions of office complexes in the US. In addition, the company opened a European headquarters in London in September and is planning to build as many as 10 huge US-style shopping and entertainment complexes. It is working on three projects – one each in Hungary, Czech Republic and Spain. The company also has plans to invest about $500m in Europe in the next two years.

In the last financial quarter, Trizec bought $450m in US office properties, bringing its acquisition expenditure in the year to date to $1.8bn. The company said another $750m in acquisitions is under active negotiation.
Edward Alden, Toronto

FASHION

Low demand hits Donna Karan

Donna Karan, the New York fashion house, yesterday warned that its 1998 profits might fall below expectations because of the downturn in demand from Asia and a fall in athletic shoe sales. The company, which has had a tough time since floating 18 months ago on the New York Stock Exchange, is now being restructured under John Idol, a former Ralph Lauren executive who was recently appointed chief executive officer. Karan also reported a steep increase in net income yesterday to $7.56m in the three months to September 27 from $923,000 in the same period last year.

Net revenue fell to $170.57m ($214.87m) during the third quarter, principally because of the decision to license beauty products to the Estée Lauder group and its DKNY jeans operation to Liz Claiborne, the US clothing company. Cost-cutting triggered a reduction in general expenses to $35.7m ($64.41m) and operating profits rose sharply to $14.52m ($2.39m).

Net income per share also showed a strong increase to 35 cents (4 cents). Karan's profits warning reflects the general unease in the designer fashion market. Isaac Mizrahi, another well-known US fashion designer, recently closed his business and Todd Oldham is scaling down his company. **Alice Rawsthorn**

MONTHLY AVERAGES OF STOCK INDICES

	October	September	August	July
FTSE Actuaries Indices				
FTSE 100	5083.8	5171.9	†5555.8	5987.2
FTSE 250	4516.2	4657.9	5173.4	5595.9
FTSE 350	2417.2	2472.8	2672.0	2881.5
FTSE Non-Financial	2413.68	2480.53	2858.60	2859.68
FTSE Financial Group	4319.56	4410.37	4914.36	5352.53
FTSE All-Share	2337.61	2397.79	2597.86	2604.20
FTSE Eurotop 100	2266.27	2419.84	2717.92	2977.11
FTSE Eurotop 300	987.24	1051.70	1181.01	1288.61
FT/S&P-A World Index	260.34	258.09	273.33	297.68
FTSE Indices				
FT Govt Securities	111.32	110.10	106.55	104.97
FT Fixed Interest	149.65	149.68	145.23	143.54
FT 30	3043.2	3199.9	3556.2	3872.5
FTSE Gold Mines	1137.13	957.91	845.85	979.96
SEAQ Bargains (5.00pm)	63,039	61,844	58,484	61,998

	Highest close Oct	Lowest close Oct
FTSE 100	5358.5 30th	4648.7 5th
FTSE 250	4811.4 30th	4251.2 8th
FTSE 350	2592.4 30th	2233.5 5th
FTSE All-Share	2504.85 30th	2166.07 5th
FT 30	3320.6 30th	2806.8 5th

† Corrected figure for August.

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dogs bark agai

PROPERTY

TrizecHahn cash flow rises on rental income

Low demand hits Donna Ka

SCANDINAVIA LEADING COMPANIES SEE FLAT OR FALLING PROFITS AS STEEL PRICES DROP

Lower demand threatens engineering groups

By Tim Burt in Stockholm

Three of the Nordic region's leading engineering companies yesterday warned that weakening international demand and intense price pressures would lead to flat or falling profits this year.

Avesta Sheffield, the Anglo-Swedish stainless steel manufacturer, and Sandvik, the Swedish toolmaker and specialist steels group, said historically low steel prices and the financial crisis in Asia had held back their performance this year.

Rauma, the Finnish engineering equipment company, said it had been hit by falling deliveries and customer nervousness.

Avesta Sheffield was the worst affected. The company, majority-owned by British Steel, yesterday reported a SKr515m ($4.5m) loss for the six months to September 30 – compared with a profit of SKr91m last time – as sales fell from SKr9.2bn to SKr8.46bn.

The company earlier this year announced more than 1,100 job cuts in a restructuring aimed at reversing the losses. But Stuart Pettifor, chief executive, said the cost-cutting would not offset lower volumes and continued price pressures in the second half.

"The market and the results show that something has got to happen to improve costs and productivity," he said.

Since the summer, falling raw material costs have undermined steel prices, although Mr Pettifor said there were signs of stabilisation.

At the operating level, Avesta reported a SKr251m half-year loss, against a SKr367m gain last time. Losses per share were SKr3.30, against SKr0.63.

Its first-half figures were hit by a SKr275m drop in stock values and a SKr317m charge for mothballing its Baltimore melt shop.

Sandvik reported flat pre-tax profits of SKr3.1bn for the first nine months of the year, even though sales rose 33 per cent from SKr23.4bn to SKr31.3bn.

Like Avesta, it said the business climate had declined faster than expected, particularly in Latin America, Asia and Africa.

Sandvik's most commonly traded B-shares fell SKr11.50 to SKr150 after it warned full-year profits would be lower than expected.

In Helsinki, shares in Rauma fell FM1.90 to FM56.50 after it described third-quarter demand as no more than moderate and said deliveries were falling.

It saw third-quarter operating profits fall 17 per cent from FM167m to FM139m ($27.7m), but the company said it would be protected from severe order volatility in the full year by its spares and maintenance activities.

Shares in Avesta Sheffield rose by SKr0.90 to SKr22.40 after Mr Pettifor predicted more emphasis on cost cuts and cash generation.

"Excluding closure costs and inventory losses, our underlying results are a bit better and we have generated cash," he added. "But the outlook for the second half is worse and volumes are down."

Russia impact pushes SEB to quarterly loss

By Tim Burt

SEB, the financial flagship of Sweden's Wallenberg business empire, yesterday announced a third-quarter loss of SKr1.37bn ($176m) after taking heavy provisions for possible lending losses in Russia.

The bank, formerly known as Skandinaviska Enskilda Banken, said it had been hit by stock market volatility, which contributed to a SKr655m loss on financial transactions in the three months to September 30.

Although third-quarter interest income rose from SKr7.36bn to SKr7.74bn year-on-year, improvements in retail banking were more than wiped out by loan loss provisions, weakening share prices and falling insurance income.

"Financial unrest in the world has affected SEB negatively," said Lars Thunell, chief executive.

"As a result of the situation in Russia we have made provisions for lending losses. The stock market decline has also had a negative impact on our result in several areas."

Mr Thunell was speaking after SEB announced a SKr1.4bn provision for possible loan losses in Russia, where its total exposure is estimated at about SKr2bn.

Mr Thunell, formerly chief executive of Trygg-Hansa, the insurer, said the worsening economic outlook had persuaded the bank to reduce its exposure to emerging markets.

"Russia's economic situation does not seem to be brightening and great uncertainty prevails as to what policy that country is about to pursue," he said. "Recession in several economies in south-east Asia has not yet bottomed out and political unrest remains."

During the first nine months of the year, that uncertainty prompted SEB to cut its emerging market exposure by 40 per cent to SKr28.5bn.

Mr Thunell – who became SEB chief executive following the bank's Skr17bn takeover of Trygg-Hansa last year – said the figures were further undermined by reduced net interest earnings.

Together, such factors helped reduce group profits by 32 per cent from SKr6.25bn to SKr4.22bn in the nine months to September 30, even though interest receivable rose 10 per cent to SKr23.6bn.

The decline was partly offset by strong commission income – particularly in the first two quarters – and one-off capital gains on property and non-core disposals, coupled to hedging operations on the securities portfolio.

Mr Thunell said the bank was also beginning to see results from the integration of SEB and Trygg-Hansa, and emphasised that growth in operating costs was slowing.

Of the main operating businesses, he added that profitability remained good in retail banking. But the results in asset management, life products and Enskilda Securities had been adversely affected by falling stock prices.

SEB merchant banking, moreover, posted a loss of SKr156m compared with a gain last time of SKr1.84bn, mainly because of the Russian provisions.

Nine-month earnings per share fell from SKr5.78 to SKr4.77.

SEB's most commonly traded A shares, down almost 40 per cent in the past three months, fell SKr1 to SKr83.

German bank seeks reunification spirit

A feud at HypoVereinsbank is threatening its image, writes **Tony Barber**

By the decorous standards of German business culture, few disputes have been so raw and public as that being fought out at the highest levels of Bayerische HypoVereinsbank, the nation's second largest bank.

The quarrel, which ostensibly centres on property deals of uncertain value in former communist eastern Germany, needs to be patched up soon if the image of the newly-merged Munich bank is to avoid lasting damage, executives say.

More broadly, they say, failure to settle the dispute quickly would send a signal that even a simple restructuring of Germany's banking sector, such as the HypoVereinsbank merger, can bring unexpected problems.

The dispute might never have reached such proportions, had it not thrown together two bankers who had known each other for 30 years.

The deal they struck in July 1997 remains Germany's biggest bank merger, having created an institution with 40,000 employees and total assets of DM860bn ($519bn).

On one side is Albrecht Schmidt, the thoughtful, music-loving chairman of HypoVereinsbank, who lived in the eastern German city of Leipzig until he was 16. On the other is Eberhard Martini, an exuberant, cigar-smoking Bavarian and member of the bank's supervisory board. Before the merger, Mr Schmidt was the chief of Vereinsbank and Mr Martini ran the slightly smaller Hypo-Bank.

The dispute erupted in public last week when Mr Schmidt announced that HypoVereinsbank was raising its risk provisions by DM3.5bn to take account of overvaluations of property projects in east Berlin and former communist cities.

Declaring himself "deeply shocked at mistakes of this magnitude", he pointed the finger of blame at former Hypo-Bank officials and promised that heads would roll. He also said data protection laws had prevented him and other former Vereinsbank staff from uncovering the alleged problems until September 1, when the merger became official.

Mud-slingers in chief: Albrecht Schmidt (left) and Eberhard Martini of the newly merged bank AP

Hearing this tale unfold, Mr Martini's response was, if anything, even more blunt than Mr Schmidt's accusation. "Complete nonsense . . . Schmidt has dragged my professional existence through the mud," he seethed. "Schmidt's character is consumed with vanity. A man like that can't run a bank."

By last weekend, concern at the public mud-slinging was growing at the offices of HypoVereinsbank's most influential shareholders, Allianz. At the least, the giant Munich-based insurer wanted to calm tempers and re-establish contact between Mr Schmidt and Mr Martini.

The chairman of HypoVereinsbank's supervisory board, Klaus Götte, on Monday promised to hold an extraordinary meeting to look into the disputed risk provisions and end the controversy once and for all.

As former head of Hypo-Bank's supervisory board, Mr Götte has a clear interest in defending himself and his former Hypo colleagues against accusations of negligence. The view among former Hypo-Bank officials is that Mr Schmidt went too far in levelling such serious charges against them without providing what impartial experts might have viewed as supporting evidence.

Noting that Hypo-Bank had set aside DM1.5bn last year in provisions for the property projects, Mr Schmidt said both the bank's supervisory board and independent accountants had approved this amount.

Former Hypo officials suggested it was inconceivable that neither internal Hypo-Bank experts nor independent accountants could have appreciated the need for extra provisions to the tune of DM3.5bn.

Their implication was that there had never, in fact, been such a need, and that Mr Schmidt might have had other motives for making his announcement last week.

That some of the property deals conceived by Hypo-Bank after German reunification in 1990 turned sour has hardly been a secret. One case is said to involve a former Berlin light bulb factory called Narva, on whose derelict premises it was intended to build.

But this space and others in eastern Germany remain vacant, partly because, as one banker puts it, "people thought that the mortgage market would grow and grow [after reunification], which didn't happen".

Whatever the scale of the problems, they have been overshadowed by the sheer acrimony of the dispute between Mr Schmidt's supporters and Mr Martini's camp.

All is far from lost: in many ways, the Munich-based bank has weathered this year's hedge fund and emerging markets storms more successfully than its Frankfurt rivals, Deutsche Bank, Dresdner and Commerzbank. Increasingly, however, it seems that only a top-level showdown will resolve the crisis at HypoVereinsbank.

INSPECTION AND TESTING NEW MANAGEMENT MOVES TO REBUILD PROFITABILITY

SGS cuts staff at Geneva HQ

By William Hall in Zurich

Société Générale de Surveillance, the world's biggest inspection and testing company, has taken a first step towards rebuilding profitability, cutting staff at its Geneva headquarters by one-third.

The decision is the first sign that the Swiss group's new management team, led by Tony Czura, is starting to attack the cost base at the 120-year-old company.

SGS shares, which have fallen by two-thirds this year following a collapse in profits, yesterday closed more than 7 per cent higher, rising SFr72 to SFr1,040.

The company said yesterday it would cut 116 jobs at its Geneva headquarters through early retirement and redundancies. After the cuts, SGS will employ 250 at its headquarters.

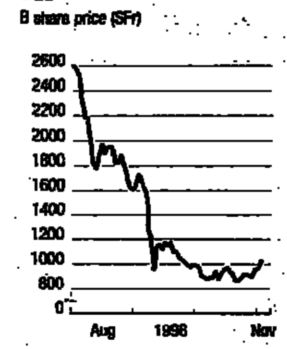
Although the cuts in Geneva will have little impact on the cost base of a group that employs 40,000 worldwide, analysts were encouraged by yesterday's move.

Simon Marshall-Lockyer, of BT Alex. Brown in Zurich, said it was a "step in the right direction" but warned that it would be much more difficult to make the same sort of cuts in overall staff numbers without damaging the group's core businesses, which were heavily intertwined.

SGS said the cuts were designed to increase the efficiency of customer service and restore profitability through a strict cost-control programme. A restructuring programme had been initiated throughout the organisation and a "cultural change was taking place focusing on customer value, innovation and cost consciousness".

SGS

B share price (SFr)



Source: Datastream/ICV

Last month Elisabeth Salina Amorini, 43, who had dominated the group for the past decade, stepped down as chairman and was replaced by Max Amstutz, 69, a Swiss industrialist. Mrs Salina, whose grandfather Jacques Salmanowitz ran SGS for nearly 50 years, had overseen a substantial increase in staff numbers but had not been able to reduce the group's dependance on the highly profitable, but volatile, government inspection and testing business.

The stock market, which had lost confidence in SGS's former management and directors, expects the company to announce a comprehensive restructuring before the end of the year.

Until then, few analysts are prepared to forecast SGS's profits. However, Johannes Borner, of Pictet & Cie in Geneva, estimates the group will report a net loss of SFr108m ($14m) in 1998, and make net profits of SFr90m in 1999 and SFr129m in 2000, on sales of SFr3.7bn. This compares with a peak profit of SFr263m, on sales of SFr3bn, in 1996.

Viag considering sale of Klökner

By Ralph Atkins in Bonn

Viag, the Munich-based industrial group, is considering selling its Klökner & Co logistics subsidiary – a move which would mark a significant refocusing for the power-to-telecommunications conglomerate.

Talks are taking place with "several" possible buyers of Klökner & Co, Viag said. Possible buyers include Thyssen, the Düsseldorf-based industrial group, which said it was looking to expand its metal trading activities.

Klökner & Co's core steel trading business generated a turnover of DM9.35bn ($5.64bn) last year.

News of the possible disposal comes ahead of a statement planned for next Monday by Wilhelm Simson, Viag's newly appointed chairman, outlining results of a strategic review by the group.

Viag has already said the future of its logistics activities – which accounted for more than 40 per cent of Viag's total turnover last year of DM49.5bn – was under "particular" scrutiny.

The group is also considering plans to dispose of its 30 per cent stake in the Switzerland-based Kuhne & Nagel transport and logistics group. If the Kuhne & Nagel stake were sold, the sale of Klökner & Co would, in effect, mark an exit by Viag from logistics activities.

Earlier this year Viag sold its 80 per cent stake in Computer 2000, the personal computer distributor, which was part of the Klökner & Co division.

Viag yesterday said a final decision on the future of Klökner & Co had not been taken. Like Germany's other industrial conglomerates, Viag has faced pressure from financial markets to streamline its operations.

As well as electricity, chemicals and packaging interests, the group has also pushed into telecommunications where it wants to build a service that can rival Deutsche Telekom, Europe's largest telecoms group.

Viag Interkom, a joint venture with British Telecommunications and Telenor of Norway, launched its mobile telephone service last month.

NEWS DIGEST

ITALY

Olivetti chief's alliance builds 8% stake

Roberto Colaninno, chief executive of Olivetti, has assembled a new group of core investors that has accumulated the single largest stake – 8 per cent – in the Italian telecommunications and information technology group, paying between L1,000bn-L1,500bn ($611m-$916m). Olivetti last night confirmed that a new Luxembourg-based company called Bell had bought an 8.02 per cent stake in Olivetti and intended to increase this holding to 10 per cent. The shareholders of the new company include Mr Colaninno, Chase Manhattan bank, a group of northern Italian businessmen, the Banca Popolare Antonveneta and Interbanca, a Milan merchant bank.

Large blocks of Olivetti shares amounting to about 5 per cent of the company's equity capital, were traded yesterday – in part related to the stake-building by the new Luxembourg-based company. The Italian partners in Bell have grouped themselves in a company called Fingruppo, with a 46 per cent stake in the Luxembourg-based venture. Mr Colaninno, who has been the architect of Olivetti's turnround, is also chairman of Fingruppo and owns a 15.7 per cent stake.

A central part of Mr Colaninno's recovery strategy was to negotiate a strategic partnership with Mannesmann. The German group owns a 2.3 per cent stake in Olivetti and a 49 per cent stake in Oliman, the Olivetti subsidiary that controls the company's fast growing mobile and fixed-line telecoms activities. Olivetti insisted last night that Mr Colaninno's joint investment with a group of new shareholders for the single largest stake in the company was in no way hostile to Mannesmann. **Paul Betts, Milan**

ENGINEERING

Siemens to restructure

Siemens will today unveil a wide-ranging restructuring, which may include deep job cuts, in an attempt to stem losses in the German electronics and electrical engineering group. Heinrich von Pierer, chief executive, will end months of speculation by giving details of a long-promised "10-point plan" to put Siemens on a firmer footing. The programme is likely to include the sale or separate listing of underperforming units and a commitment to improving return on capital.

In June, Mr von Pierer publicly identified problems in several areas of the group's activities including semiconductors, transportation, power generation and mobile telephones, but stopped short of giving further details of planned remedies. More details were due to have been given next month, but Siemens appears to have brought forward the announcement because of growing shareholder unease. Investors have grown increasingly impatient at the lack of change, especially after Siemens' subsequent difficulties in its semiconductors division. This has suffered from a steep drop in chip prices, which forced the closure of Siemens' North Tyneside plant in the UK in July. Tomorrow's announcement may include further capacity cuts, including possibly more plant closures.
Graham Bowley, Frankfurt

TELECOMMUNICATIONS

KPN cuts 4,000 jobs

KPN, the privatised Dutch telecommunications group, yesterday launched a harsher than expected programme of cuts in order to deal with the pressures of new competition and regulatory demands for lower call charges. About 4,000 full-time jobs are to go, from a total of almost 33,000, and 1,300 contract and agency posts will be ended. The group is to take a Fl 800m ($428m) pre-tax write-off this year – at the top end of a range indicated in April – to cover redundancies. The cuts, mainly among administrative and lower-skilled technical staff, were likely to involve compulsory redundancies, KPN added.

KPN is also to accelerate depreciation on its older hardware, resulting in an initial Fl 400m in extra costs. It said these would be cancelled out over the coming three to four years by savings from the reorganisation.

Shares in KPN slipped Fl 1.20 in Amsterdam to Fl 75.50. The group has previously forecast an increase of only 2-4 per cent for 1998 net profits from the Fl 1.94bn recorded last year.

■ **Unisource**, the lossmaking international telecoms alliance grouping KPN with Switzerland's Swisscom and Telia of Sweden, is to have Boenk van Marle as its new chief executive. Mr van Marle, 56, is chief information technology officer at AT&T-Unisource, a venture which is being unwound after the US partner in July agreed to link with British Telecommunications. He replaces Paul Smits, whose return to KPN as director in charge of the Dutch market was announced last month.
Gordon Cramb, Amsterdam

DEFENCE ELECTRONICS

Thomson-CSF in Indra pact

Thomson-CSF of France is set today to sign a new industrial and commercial pact with Indra, Spain's main defence electronics concern, to reinforce their links despite a planned reduction in the French group's shareholding in the Spanish company.

Under privatisation plans for Indra, Thomson-CSF agreed earlier this year to reduce its stake of almost 25 per cent, as the Spanish state holding company Sepi prepares to privatise its controlling 66 per cent holding.

In a move to scale down French influence in the privatised electronics company, two Spanish banks, Caja de Madrid and Banco Zaragozano, are set to buy 15 per cent from Thomson-CSF, leaving it with 10 per cent. The French group, which reverted to majority private-sector ownership this year, bought its stake in Indra in 1995 for Pta3bn ($21.3m). The whole of Indra is valued at about Pta100bn.

The new agreement aims to ensure Thomson-CSF's access to Spanish contracts and give Indra worldwide outlets. Indra's existing joint ventures with the US Raytheon-Hughes group – with Raytheon in air traffic control and air defence, and with Hughes in weapon control systems – are to remain intact. **David White, Madrid**

FIBRE

Lenzing on track for profit

Lenzing, the Austrian fibremaker, said yesterday it was on track to end the year in the black for the first time since 1995, after nine-month results turned positive despite losses at its Lyocell unit. The group, which is majority-owned by Bank Austria, said pre-tax profit to September 30 was Sch223m ($19.1m), compared with a loss of Sch242m in the same period last year.

Sales of Lyocell – a fibre derived from natural cellulose in woodpulp – were much lower than expected, resulting in losses of Sch214m at the subsidiary. "The Asian crisis led to a dramatic reduction in the important Japanese business," Lenzing said, adding that Lyocell would in future be sold through the parent company's global network in an attempt to boost market penetration. Despite the rosy full-year outlook, Lenzing said market conditions had deteriorated in the US and Europe due to increased imports from Asia and a general economic slowdown.
Reuters, Vienna

HONG KONG MAINLAND-BACKED GROUPS TO SUPPLY PARENTS WITH CASH BY BUYING INTO THEIR SUBSIDIARIES

Red chips to acquire Chinese assets

By Louise Lucas in Hong Kong

Two red chips have moved to capitalise on rallying share prices within the mainland-backed Hong Kong companies' sector.

China Everbright, one of the Hong Kong-listed companies under the acquisitive business arm of China's State Council, is to pay HK$700m (US$90m) to acquire a financial services group from its mainland parent.

The deal is expected to be the first of several that see Hong Kong-listed subsidiaries supplying their parents with cash.

Credit availability, or the rising cost of funds, has become a bigger concern for mainland groups in the wake of the closure of Guangdong International Trust & Investment Corp (Gitic), which rattled bankers and prompted a series of downgrades by the credit rating agencies.

Other Itics, of which there are some 240, have felt the brunt of the curbs on China lending.

As investment agencies, Itics have been one of the mainland's big platforms for raising funds overseas, a role that is expected to shift heavily over to the red chips.

China Everbright said that in addition to acquiring China Everbright Financial in its entirety, it had also been granted an option to buy a 49 per cent stake in Everbright Securities Company, a mainland entity engaged in securities dealing.

Investors welcomed the deal, which appears to reignite the trend of asset injections into parent companies – a trend which investors like because the rates paid are generally more favourable.

China Everbright's share price yesterday rose 11.4 per cent to HK$3.95.

Investors also rushed to embrace another red chip deal, the sector's first private share placement in five months. Demand was so strong that China Merchants Holdings International issued additional shares, according to underwriters.

The Hong Kong-listed arm of China's Ministry of Communications, issued 102m new shares at HK$5.04 each to place with institutional investors, raising HK$514m.

The price represents a 10 per cent discount to the share's HK$5.60 closing price on Monday, when the share surged 11 per cent. Trading was suspended yesterday.

Ssangyong sell-offs continue

By John Burton in Seoul

Ssangyong is to sell its main cement and oil refining businesses to help it pay off debt. The sales will be the latest in the break-up of what was South Korea's sixth largest conglomerate only a year ago.

An ill-fated move into car manufacturing nearly bankrupted the group last December and forced it to sell its car, paper and securities units to pay off debts.

Ssangyong said continuing problems with its construction units were forcing it to sell its cement plants and oil refining operations, which form the core of the group.

It asked creditor banks to restructure Won1,630bn ($1.2bn) in debts owed by Ssangyong Engineering and Construction and Namkwang Engineering on the understanding that the group would raise Won2,900bn through the sale of the cement and oil refining assets.

The asset sales would reduce the number of Ssangyong units to seven. They will include trading, machinery, construction, insurance and communications, most of which have been marginal businesses for the group.

Cho Hung Bank, Ssangyong's main creditor, said it would decide within 10 days whether to approve the debt restructuring programme.

Ssangyong estimates it could raise at least Won1,500bn from the sale of its cement plants.

● Semen Cibinong, the Indonesian cement maker, yesterday said it would resume partial interest payments on $910m in foreign debt, becoming the first big Indonesian debtor to respond to the rebound of the rupiah, writes Sander Thoenes in Jakarta.

With the rupiah at Rp8,500, against a low of Rp17,000 in June, Cibinong said it could pay 25 per cent of interest due.

Hyundai vows to take more radical steps to reform

High gearing and a pressing need to finance the takeover of Kia have driven restructuring efforts, says **John Burton**

Driving changes: Hyundai is set to close 27 out of its 62 subsidiaries in a move to reduce costs AP

Investors have not treated Hyundai kindly in the past year. Share prices for listed companies of South Korea's largest conglomerate, or *chaebol*, have fallen 38 per cent, the second worst performance among the nation's top five business groups after Daewoo.

The reason is not hard to find. Hyundai is known for its smokestack industries and the old-style autocratic management that belies its name, which means "modern" in Korean. It has resisted restructuring despite struggling to support a debt burden of five times equity during Korea's worst recession in 45 years.

But Hyundai may yet prove to be the first big *chaebol* to streamline its sprawling industrial empire after winning an auction for Kia, the insolvent Korean motor group, last month.

Faced with the prospect of spending Won7,600bn ($5.76bn) to absorb Kia, Hyundai has suddenly appeared willing to dispose of troubled businesses. "The Kia deal will be a catalyst for change at Hyundai," says Del Ricks, research head at ABN Amro in Seoul. Hyundai last week said it would close 27 of its 62 subsidiaries and reduce its debt to two times equity by the end of 1999 as it concentrates on profitable businesses.

Although Hyundai has failed to deliver on similar restructuring plans in the past, analysts believe the group may be serious this time.

One encouraging sign is that it dropped its opposition to merging some businesses with *chaebol* rivals under a government-sponsored reform plan to eliminate excess production capacity in seven industrial sectors.

Hyundai, with its heavy industrial profile, was the *chaebol* most affected by the "big deal" programme, but refused to participate in several of the proposed mergers. In the wake of Kia, it agreed to proceed with the mergers, which include its semiconductor, petrochemical, aerospace, power generation, and rolling stock operations.

It has decided to accept foreign investment. Half of Hyundai Oil Refinery was sold last month to IPIC, the state-run oil company of the United Arab Emirates, for $500m. It is also discussing selling a minority stake in its telecommunications equipment business to Germany's Siemens and wants foreign car companies to invest in Kia.

Financial pressure is accelerating restructuring since Hyundai must raise Won1,200bn by March to pay for its 51 per cent stake in Kia. Hyundai must also pay Kia's outstanding debt of Won6,400bn by the year 2008.

The acquisition of Kia represents a renewed emphasis on Hyundai's core businesses, which include Korea's largest car, shipbuilding, shipping and construction companies that were established by Chung Ju-yung, the group's retired founder. Efforts by Mr Chung's sons, who took management control last year, to expand new businesses, including steel, aerospace, electronics and finance, have been put on hold.

Nonetheless, some analysts remain sceptical about the extent of changes occurring at Hyundai and believe that more radical restructuring is needed.

"Slimming down the number of businesses is a step in the right direction, but the main challenge is getting rid of excess capacity.

"My fear is that Hyundai and the other *chaebol* won't do anything about that if they keep their privileged access to credit," says Richard Samuelson, the branch manager of Warburg Dillon Read in Seoul. One potential barrier to further reforms is that Mr Chung has divided up the Hyundai empire among several of his sons and nephews, who are unwilling to sacrifice their inherited corporate fiefdoms in the name of restructuring.

They could even block the state-proposed merger between Hyundai Electronics's semiconductor unit and LG Semicon.

Hyundai Electronics is managed by Chung Mong-hun, who was recently appointed co-chairman for the entire group. Analysts believe that he is unlikely to proceed with the merger if an outside arbitrator decides LG Semicon should have majority control of the new company.

Credit Suisse may quit private banking in Japan

By Julie Hess and Gillian Tett in Tokyo

Credit Suisse, one of the world's leading private banks, is considering withdrawing from private banking operations in Japan and is reviewing its activities elsewhere in Asia.

The Swiss bank has already closed its Australian office and could soon suspend its operations in Jakarta and Kuala Lumpar, it said yesterday.

Credit Suisse insisted no decision had yet been taken on the future of the Japanese office and other Asian branches. However, the review highlights how the Asian downturn is denting the expansion plans of some Western banks in the region.

The Tokyo office employs 20 and serves several hundred clients. Its closure would undermine the Japanese government's claims that Big Bang deregulation should promote a private banking boom in the next few years.

The review has been partly prompted by a recent reorganisation of the global private-banking business at Credit Suisse's headquarters in Zurich and by a move away from global market coverage towards a requirement that each regional office be profitable.

Credit Suisse closed its onshore New York office earlier this year, and in recent weeks the high cost of the Japanese offices has left officials in the bank pushing to close these as well.

The Tokyo office has not generated a profit since it opened in 1991. "The yearly cost per customer to run an account is incredibly high by international comparison," said Daniel Bischoff, head of Credit Suisse private banking in Tokyo.

He said expanding private banking was difficult in Japan, as clients were not familiar with private banking concepts.

NEWS DIGEST

PHILIPPINES

Ayala Corporation rises in line with expectations

Ayala Corporation, the blue chip Philippine conglomerate whose interests include banking and telecommunications, saw a slight growth in profits for the nine months to September 30. Net profit edged up from 5.24bn pesos to 5.29bn pesos ($131m) for the period.

The result was in line with market expectations, although analysts said the third-quarter performance of Ayala Land, the property development subsidiary, were slightly disappointing.

Bonnie Ladrido, at Paribas Asia, said Ayala Land's net profit of 1.9bn pesos for the nine months came in marginally below his forecast of 2.1bn pesos. However, he said the fourth quarter, usually the company's strongest, was expected to show a rebound following the successful launch of two new property developments in October.

Bank of the Philippine Islands, another subsidiary and rated as one of the country's soundest banks, saw nine-month net profit rise from 3.6bn pesos to 3.9bn pesos. Despite a 4 per cent contraction in its loan portfolio to 104.7bn pesos, interest income rose 33 per cent, from 6.6bn pesos to 8.7bn pesos. The bank's capital adequacy ratio also continued to increase, to 22 per cent, reflecting the bank's conservative approach.

Globe Telecom, Ayala's fixed-line and cellular telecoms operation, returned to profits after increasing its subscriber base. It made nine-month profits of 4.7m pesos compared with a loss of 793m pesos last time.
Tony Tassell, Manila

SOUTH AUSTRALIA

Electricity industry to be leased

South Australia's electricity generating and transmission business, worth about A$5.5bn (US$3.4bn), is now expected to be leased rather than sold. A 25-year lease with a 74-year renewable option of the States power assets, has been flagged, but nothing definitive has been agreed.

The states' power assets are controlled by seven government-owned companies. Already, 33 national and international companies have expressed interest in buying or leasing the companies' assets.

US-based GPU International, has expressed interest in the lucrative transmission and distribution sector. GPU paid A$2.5 billion in 1997 for the distribution system in the neighbouring state of Victoria. A decision is expected late this month or early December, according to Alex Kennedy, of the Economic Reform and Sales Unit of the SA government. **Steve Wyatt, Sydney**

Cathay Pacific seeks PAL stake

By Louise Lucas in Hong Kong and Tony Tassell in Manila

Cathay Pacific, Hong Kong's de facto flag carrier, has completed an outline proposal for taking a controlling stake in the troubled Philippine Airlines.

Negotiations over the plan, which will be submitted shortly, are likely to be protracted as several of its conditions could prove to be obstacles to a sale.

The problems are understood to involve restructuring PAL's $2bn debt burden and management control.

Under current regulations, Cathay Pacific can take only a minority 40 per cent stake in the airline, but the Hong Kong airline is keen to ensure it would have management control.

However, Joseph Estrada, the Philippine president, said yesterday that the Filipino-Chinese business tycoon Lucio Tan, PAL's majority shareholder, was willing to cede management control.

Analysts in Hong Kong said Cathay Pacific was in a strong position to negotiate debt restructuring with PAL creditors. It would also be able to take advantage of synergies and may introduce another equity holder to share the costs.

However, others were concerned by the challenge Cathay Pacific would face turning round PAL, which lost more than 8.08bn pesos ($200m) in its year to March.

Some Cathay Pacific executives are also concerned about union activity at PAL, and possible racial tensions from putting in Chinese management.

OIL RISE IN VOLUMES FAILS TO OFFSET FALL IN CRUDE PRICES

Third-quarter decline at BP

By Robert Corzine

British Petroleum, due to take over Amoco of the US by the end of the year, yesterday reported a 35 per cent fall in third-quarter profits, before exceptional items, to £416m ($703m) as its three main operating divisions came under pressure from low oil prices and growing economic uncertainty.

Operating profits from exploration and production, traditionally the main source of BP revenues, tumbled to £339m (£675m). A 12 per cent rise in oil volumes failed to offset a $6 a barrel fall in crude prices, while natural gas sales in the UK were substantially lower.

But the results were firmly in line with expectations, at a time when companies across the oil sector have been hard hit. BP shares closed up 10½p at 905½p after rising as high as 932p as analysts said BP was outperforming many of its peers.

Sir John Browne, BP chief executive and chief executive-designate of BP Amoco, said he intended to set detailed long-term financial performance targets for the merged group by next July in a bid to secure premium ratings for its shares. He said the merger, billed as the world's biggest industrial one, was on track for completion by the year-end.

Rodney Chase, BP's deputy chief executive, said Amoco managers had generally accepted the fact that the new group would be run along BP lines.

Mr Browne said BP would continue to review its upstream portfolio and focus even more on the "very low cost and high output fields" that are more resilient to low prices.

In the three months to September 30, operating profits from refining and marketing, which usually benefits from low crude prices, were up only 3 per cent to £272m, because margins outside of Europe "were significantly lower."

Chemicals output rose 10 per cent but profits fell to £66m (£141m). The performance of the chemicals division was hit by £50m charges related to maintenance shutdowns and legal settlements.

Net debt fell to $7.2bn, with gearing at 22 per cent, below BP's target range of 25-30 per cent.

Mr Browne said volume growth and increased productivity so far this year "have delivered $250m towards our target of $2bn of net income improvement by 2002."

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RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anglian Water	6 mths to Sept 30	413.9	(425.1)	112.8♠	(141.7)	42.3	(3.2L‡)	12.8	Apr 6	11.5	-	39
BP	9 mths to Sept 30★	26,589	(35,468)	2,131♥	(2,851♠)	25.6	(33.1)	6‡‡	Feb 1	5.5	-	22
Charles Stanley	6 mths to Sept 30	20.3	(10.6)	3.58	(1.69)	24.43	(11.04)	1.25	Nov 27	1	-	5
ILP ♣	6 mths to June 30	8.8	(6.67)	0.753L♠	(0.214L)	3.96L	(1.06L)	nil	-	nil	-	nil
Marks and Spencer	6 mths to Sept 26	3,809	(3,742)	284.2♠	(452.3)	6.3	(11.3)	3.7	Jan 15	3.6	-	14.3
MY	Yr to Aug 29	102.9	(92.2)	14.7	(14.3♥)	8	(7.73)	2	Feb 1	1.9	2.85	2.7
Pressac	Yr to July 31	116.8	(95.4)	14	(10.1)	16.4†	(13.65)	3.52	Dec 14	3.2	4.73	4.3
Select Appointm'ts	9 mths to Sept 30	603.7	(378.4)	37.4	(23.2)	21.7	(16.8)	-	-	-	-	3.5
Shanks & McEwan	6 mths to Sept 26	128.5	(88.3)	18	(12.7)	5.7†	(4.3)	1.6	Jan 6	1.4	-	4.2
Solid State Φ	6 mths to Sept 30	2.95	(2.43)	0.132	(0.101)	1.6	(1.2)	0.5	Jan 8	1	-	1
Thames Water	6 mths to Sept 30	653.6	(698.1)	214.2♥	(202)	53	(16L‡)	14	Apr 6	12.5	-	38.4
Trinity Care Φ	6 mths to Sept 30	8.57	(6.27)	0.42	(0.288)	4.9†	(2.7)	1.7	Jan 12	1.6	-	5.3
Xavier Computer Φ	6 mths to Sept 30	9.06	(7.81)	0.723	(0.501)	0.58†	(0.62)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡After windfall tax. ★Comparatives restated. ‡‡Third interim; makes 17.75p to date. ♣Irish currency. ΦAim stock. ☨Includes foreign income dividend element.

Matthew Clark agrees $360m US takeover

By Charles Pretzlik

Matthew Clark, the cider maker hit by the rise of "alcopops" and sales of bottled lagers, has agreed a £215m ($360m) takeover by Canandaigua Brands, a US drinks producer and distributor.

The move marks the beginning of an expansion drive into Europe by Canandaigua, which is based in Fairport, New York State. It is offering 243p a share in cash for Matthew Clark, which owns Blackthorn cider.

The UK group's shares rose 48p – or 25 per cent – to 239¼p. Shares of rival cider maker HP Bulmer rose 2½p to 342½p.

Canandaigua, which has made five other big acquisitions in the 1990s, said it was keen to expand in Europe. "Our most immediate focus will most likely be in the distilled spirits arena," the company said. "We are always in talks with people."

It also said it hoped to sell more Matthew Clark products in the US and was anxious to channel more American wines through Matthew Clark's UK distribution system.

Analysts believe the takeover will be welcomed by shareholders, who include Phillips & Drew with 22.9 per cent. They have seen the value of the shares fall from 801p just two years ago following a series of profits warnings. The shares hit a low of 116p this month.

Nigel Popham, analyst at Teather & Greenwood, said: "It's a very generous price in relation to where the company has been in the last year. City investors had completely lost confidence."

The offer represents an 81 per cent premium to the share price immediately before Matthew Clark said it was in takeover talks two weeks ago. The bid values the group, founded more than 250 years ago, at 8½ times last year's earnings of 28.6p per share.

Canandaigua was advised by Schroders and Matthew Clark was advised by Warburg Dillon Read.

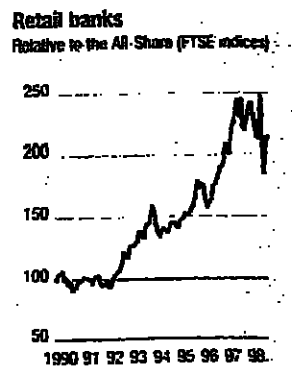
COMMENT

UK banks

What is one to make of Gordon Brown's review of the banks? Perhaps it is no more than a polite request from the chancellor that they not be nasty to their small business clients with a downturn looming. But a repeat of 1992, when a recession saw over-geared small businesses in trouble with the banks, is unlikely. Now much of the finance is long-term, and hence more secure. But perhaps the review portends a more far-reaching inquiry into bank profitability. After all, UK banks' return on equity has far outstripped that of US and European banks. Are they efficient, or just ripping off the customer? It is a reasonable question. But banks will probably not be too scared. For one, returns will fall as the cycle turn down, revealing the strong cyclical element at play. Second, they can cite the big upsurge in competition fron non-banks in retail financial services. As for small business banking, the dominant figures are National Westminster and Barclays, if anything the laggards of the UK banking sector.

Retail banks

Relative to the All-Share (FTSE indices)



Source: Datastream/ICV

One may also wonder at the review's terms of reference. Ginger up competition? Fine. But lectures on innovation from government? Sounds like the first cousin of "picking winners".

UK economy

So there will not be a recession after all. At least so says the chancellor. Next year's growth forecast has been cut to 1-1½ per cent. But that is still not shrinkage. Moreover, growth is expected to pick up smartly after that. The result is that, taking the next three years as a whole, growth is forecast to be in line with the long-term trend of 2¼ per cent.

The forecast raises two questions. Is it excessively optimistic? And is Gordon Brown taking risks with the public finances? The answer to both questions is probably no. Certainly there is no need for a recession – the economy has not binged to such an extent that a period of cold turkey is now required. That is no guarantee: the UK could still be blown off course by unpredictable events. But, even if it is, the public finances look robust. True, the current budget would not then be balanced in every year. But Mr Brown's regime only promises balance over the cycle. Moreover, the idea that fiscal policy ought to be tightened in the event of a recession is pretty bizarre economics.

M&S to review strategy after 23% downturn

By Peggy Hollinger

Sir Richard Greenbury, chairman of Marks and Spencer, yesterday described "a bloodbath" in the clothing sector as the UK's biggest fashion retailer announced its first profits decline in six years.

M&S shares tumbled 10 per cent following news of a 23 per cent drop in interim pre-tax profits to £348m ($557m), before exceptionals, on sales 1.8 per cent ahead to £3.8bn.

The group also warned that it would not meet sales targets for the rest of the year and said it did not expect the declining profits trend to reverse in the second six months.

Analysts cut profit expectations as a result from about £1bn this year to as low as £825m, against last year's £1.2bn.

"This is a major wobble," said one analyst. "M&S has done worse than its competition and it has been far too slow to respond to the market conditions."

Some speculated that pressure would increase on Sir Richard to separate his roles as chairman and chief executive. "The company needs a root and branch restructuring," said one. "Instead of pushing decision making up it needs to push it down. It has been too risk averse."

Sir Richard said the company's structure and strategy was being reviewed and a report would be made in due course. In the meantime, he had agreed to remain until the age of 65 – almost three years away.

Sir Richard said interim profits had been hit by an unexpectedly sharp downturn in clothing sales in September and October, which had affected all retailers. "We are all in shock at the moment. It is a bloodbath in clothing. National sales have been in the red for five of the last seven weeks," he said.

Nevertheless, he admitted that the group had lost market share in the autumn as a result of early discounting by competitors.

Sir Richard said M&S was re-examining its pricing and sourcing in the UK. It was also cutting about £300m from its longer-term expansion plans, mainly in the UK. UK retail operating profits fell 24 per cent to £271.6m. Overseas the effects of a strong pounds and the financial crisis in east Asia left the group with an operating loss of £5.3m against profits of £22m. Turnover fell 4 per cent to £577.4m.

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Toyota contract win for Bovis

By Jonathan Guthrie in London and David Owen in Paris

Bovis Construction, the UK-based business which P&O, the transport and property group, is considering selling, has won a high-profile contract to build the first Toyota car plant in continental Europe.

The order, estimated to be worth FFr1bn ($180m) is expected to make Bovis more attractive to potential bidders.

The greenfield plant at Valenciennes, near the Belgian border, will cost a total FFr4bn when fitted out. It has been heralded by French officials as an important symbol of international confidence in the country.

Toyota executives have indicated the company received as many as 78 site proposals from more than 20 countries. Its decision to plump for the British group is a blow to Bouygues, the construction, TV and telecoms company, which was among the contenders, as part of an all-French grouping. Japanese construction companies Takenaka and Obayashi also lost out.

A long track record in France, where other foreign firms have struggled to gain a foothold, is thought to have helped Bovis. In 1992 it completed the £1.3bn project to build Disneyland Paris.

Sir Frank Lampl, chairman of Bovis, said: "This is an endorsement of our policy of pursuing international business. We have been working in France for 20 years and in Japan for 10."

Work on the new plant, which will have 140,000 sq m of floor space, is expected to start in January. Bovis is scheduled to complete the plant by spring 2000. Production of Toyota's small car, the Yaris, currently imported into Europe from Japan, is expected to begin in 2001. Bovis will be construction manager and subcontract the building work.

WS Atkins, the consulting engineers, and Hochtief, the German builder, have been named as potential bidders for Bovis, though both have denied the speculation.

EURO PRICES

EQUITIES

Earnings overshadow rate cuts

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Interest rate cuts in three European countries failed to give much momentum to the stock market rally yesterday as bad news about corporate earnings continued to dog some individual stocks.

The Bank of Spain and Bank of Portugal both cut their repo rates by 25 basis points (a quarter of a percentage point) as part of the convergence process for the new single currency. And Sweden, which is not part of the euro process, also cut by 25 basis points on signs that inflation would fall below its 2 per cent target.

But the rate cuts, while positive for bonds, gave equities only a modest lift, and the Frankfurt market actually finished down on the day, despite lingering hopes that the Bundesbank will cut rates later this week.

The German market was affected by a profit warning from SGL Carbon, the carbon and graphite manufacturer, and by a statement from the Deutsche Telekom chief executive that a price war would make it harder to produce "results that our shareholders expect".

The broadly-based indices were flat, with no guidance from Tokyo which was closed, or from Wall Street. The FTSE Eurotop 100 index rose 1.12 to 2,488.1 while the broader Eurotop 300 fell 2.89 to 1,080.39. The FTSE Ebloc 100 index, comprising stocks in the core euro countries, fell 0.62 to 897.75.

The worst performing sector was healthcare, down 4.9 per cent, where the volatile Nycomed Amersham fell Ecu 0.3 to Ecu 5.91.

Alcoholic beverages, the best performing European sector in October, dropped 3 per cent on reports of profit-taking, with Diageo off Ecu 0.3 at Ecu 9.13.

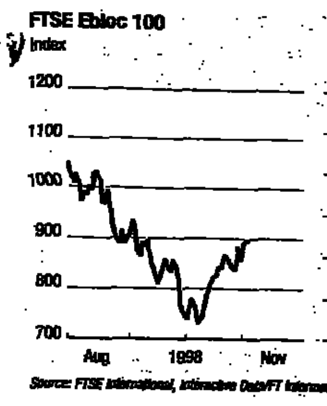
Despite the Deutsche Telekom statement, which sent the shares down Ecu 0.4 to Ecu 23.17, the sector was slightly up on the day, thanks to strong performances from the UK groups BT and Vodafone.

Meanwhile, Salomon Smith Barney estimates that European equity mutual funds suffered a small outflow of $500m in September.

The bank said that the pattern was very uneven, with Italy suffering the largest outflow but France and Spain seeing inflows to both domestic and foreign equity funds.

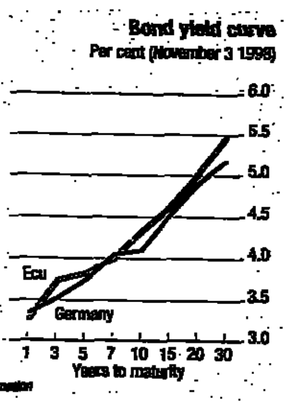
FTSE Ebloc 100

Index



Bond yield curve

Per cent (November 3 1998)



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.370	96.375	+0	96.380	96.360	137	9693
Mar	96.640	96.645	+0.020	96.640	96.640	50	6187
Jun		96.700	+0.015			0	2169
Sep		96.705	+0.015			0	1263

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
96500	0.015	0.030	0.210	0.240	0.140	0.155	0.065	0.095
96625	0.005	0.010			0.255	0.260		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2502.0	2508.0	+1.0	2520.0	2502.0	87	6829
Mar		2518.5	+1.0			0	1080

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2325 C	2325 P	2350 C	2350 P	2375 C	2375 P	2400 C	2400 P	2425 C	2425 P	2450 C	2450 P	2475 C	2475 P	2500 C	2500 P
Nov	201	24	179	28	159	33	139	39	121	45	103	53	87	61	73	72
Dec	243	60	225	65	205	72	188	80	171	88	154	96	138	106	124	116

Est vol total 753 Prev day's open interest total 4,791. Premiums shown are based on settlement prices.

OTHER INDICES

	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2972.82	2977.50	2814.87	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	2952.23	2952.04	2887.11	3658.48	2419.23	3658.48	2419.23
MSCI Europe	(u)	1092.77	1070.90	1315.55	906.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 03 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1080.39	−0.27	−2.89	2.53	28.71	1116.86
FTSE Eurotop100	2488.10	+0.05	+1.12	2.55	36.85	890.67
FTSE Ebloc100	897.75	−0.07	−0.62	2.37	14.29	910.52
FTSE Eurotop 300 Regions						
Eurobloc	1129.93	−0.02	−0.23	2.24	20.76	1153.20
UK	1005.48	−0.39	−3.96	2.99	48.38	1069.86
Europe Ex-Eurobloc	1040.78	−0.53	−5.49	2.85	37.52	1087.87
Europe Ex-UK	1128.81	−0.20	−2.29	2.31	19.29	1144.14
FTSE Eurotop Industry Sectors						
RESOURCES	857.74	+0.88	+7.50	3.29	27.67	895.31
Extractive Industries	792.60	−0.35	−2.82	4.29	14.54	809.34
Oil, Integrated	827.72	+0.94	+7.70	3.24	20.16	849.14
GENERAL INDUSTRIES	985.34	−0.53	−5.20	2.84	20.14	1005.01
Construction	914.62	−1.84	−17.10	3.07	11.06	925.26
Building Matls & Merchs	879.20	+0.31	+2.68	2.55	8.96	886.79
Chemicals	846.59	+0.08	+0.66	2.85	17.45	861.53
Diversified Industrials	898.68	+0.15	+1.31	2.66	17.48	914.09
Electronic & Elect Equip	834.79	−1.07	−9.01	2.00	4.89	838.82
Engineering	835.99	−0.20	−1.67	3.92	11.68	846.16
Paper, Pckg & Printing	762.09	−0.67	−5.16	3.09	1.21	763.04
CONSUMER GOODS	1119.89	−0.72	−8.08	1.66	49.50	1183.76
Automobiles	805.21	−1.42	−11.59	3.25	10.25	812.68
Alcoholic Beverages	889.95	−3.03	−27.81	2.96	296.79	1325.78
Food Producers	935.92	−0.21	−1.94	1.61	8.79	944.88
Household Goods & Texts	961.47	−0.47	−4.57	1.99	7.88	968.57
Healthcare	936.27	−4.86	−47.81	1.23	13.51	950.28
Pharmaceuticals	988.27	−0.45	−4.45	1.30	5.27	993.64
Tobacco	1184.48	−2.34	−28.38	4.20	15.88	1200.76
SERVICES	1093.76	−0.44	−4.83	2.13	21.95	1123.21
Distribution	796.86	−1.58	−12.75	2.74	11.37	805.81
Leisure & Hotels	729.98	+0.18	+1.35	3.36	12.27	739.52
Media	939.15	−1.30	−12.37	2.33	10.68	949.16
Retailers, Food	985.25	+0.44	+4.33	2.06	12.84	998.19
Retailers, General	905.24	−2.51	−23.27	3.44	17.45	920.88
Telecommunications	1015.79	+0.16	+1.62	1.89	13.02	1028.14
Breweries, Pubs & Rests	724.53	+0.42	+3.04	3.63	14.20	735.55
Support Services	926.43	+0.02	+0.22	1.58	9.87	936.26
Transport	930.44	−1.45	−13.74	2.58	16.18	945.48
Information Technology	856.15	−0.73	−6.30	0.42	2.33	858.19
UTILITIES	1378.49	−0.46	−6.31	3.15	55.62	1455.60
Electricity	1032.10	−0.27	−2.79	3.33	36.23	1059.88
Gas Distribution	1140.88	−0.63	−7.22	1.60	93.32	1256.18
Water	989.33	−1.20	−12.00	5.06	38.72	1027.12
FINANCIALS	1137.07	+0.00	+0.05	2.87	27.25	1167.41
Banks,Retail	781.30	−0.17	−1.34	3.74	12.96	791.79
Insurance	899.96	+0.37	+3.31	1.54	11.61	910.63
Life Insurance	1005.10	−0.05	−0.51	1.92	12.98	1018.15
Other Financial	834.94	−0.42	−3.49	2.30	15.95	848.89
Investment Companies	887.24	+0.83	+7.27	1.54	20.66	903.83
Property	678.09	−0.25	−1.69	3.57	16.01	690.54

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE INSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

Notes

[illegible]

CURRENCIES & MONEY

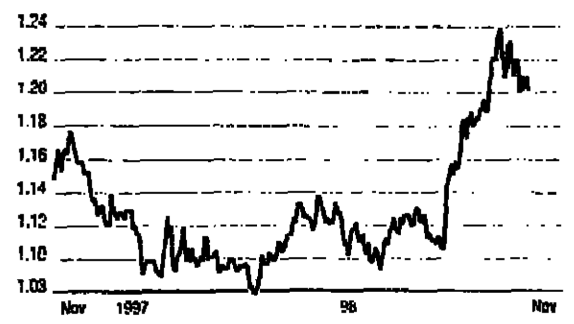
FT SYNTHETIC EURO RATES

Nov 03	Currency code	Closing mid point	Change on day	Change on day's	Change on week	Change week %
Europe						
Austria	ATS	14.050744	−0.0019	−0.01	−0.0025	−0.02
Belgium	BEF	41.191084	−0.0128	−0.03	−0.0147	−0.04
Czech Republic	CZK	34.808103	−0.0285	−0.08	−0.3019	−0.86
Denmark	DKK	7.583477	−0.0002	+0.00	−0.0005	−0.01
Finland	FIM	6.073564	−0.0015	−0.02	−0.0005	−0.01
France	FRF	6.696260	−0.0013	−0.02	−0.0001	+0.00
Germany	DEM	1.997187	−0.0002	−0.01	−0.0002	−0.01
Greece	GRD	336.444417	−2.0656	−0.61	−3.7794	−1.09
Hungary	HUF	258.527868	−1.5805	−0.65	−2.2198	−0.85
Ireland	IEP	0.802463	−0.0002	−0.02	+0.0002	+0.02
Italy	ITL	1975.455116	−0.5178	−0.03	−0.2513	−0.01
Luxembourg	LUF	41.191084	−0.0128	−0.03	−0.0147	−0.04
Netherlands	NLG	2.251712	−0.0005	−0.02	−0.0009	−0.04
Norway	NOK	8.887411	+0.0277	+0.31	−0.0281	−0.32
Poland	PLN	4.117062	−0.0171	−0.41	−0.0654	−1.56
Portugal	PTE	207.032994	+2.2511	+1.10	+2.0633	+1.01
Romania	ROL	11835.272767	+55.4969	+0.47	+389.9192	+3.49
Russia	RUB	19.173021	−0.5507	−2.79	−1.3028	−6.36
Slovakia	SKK	42.280699	−0.0951	−0.22	−0.5650	−1.32
Spain	ESP	169.745263	+0.0002	+0.00	−0.1192	−0.07
Sweden	SEK	9.403202	+0.0096	+0.10	+0.0006	+0.01
Switzerland	CHF	1.630330	−0.0008	−0.05	−0.0005	−0.03
United Kingdom	GBP	0.726731	+0.0012	+0.16	+0.0045	+0.62
ECU	ECU	1.018339	+0.0011	+0.10	+0.0033	+0.33
Americas						
Brazil	BRL	1.434821	−0.0087	−0.60	−0.0508	−0.06
Canada	CAD	1.835491	−0.0271	−1.46	−0.0200	−1.08
Mexico	MXN	12.079082	−0.0577	−0.48	−0.1402	−1.15
United States	USD	1.203995	−0.0060	−0.50	−0.0005	−0.04
Pacific/Middle East/Africa						
Australia	AUD	1.923142	−0.0131	−0.67	−0.0380	−1.95
Hong Kong	HKD	9.323739	−0.0442	−0.47	−0.0101	−0.11
Japan	JPY	138.802586	−0.2074	−0.15	−3.8658	−2.71
Singapore	SGD	1.950472	−0.0146	−0.75	−0.0142	−0.72
South Africa	ZAR	6.778493	−0.0341	−0.50	−0.1818	−2.61

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.2354, FRF 0.2217, ITL 0.1522, NLG 0.0577, BEF 0.0386, ESP 0.0846, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0197.

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 03	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0353	+0.00	+0.00	7.0364	3.71	+0.10
Belgium	20.6255	20.6245	+0.00	+0.02	20.625	3.63	+0.02
France	3.35386	3.3528	−0.03	−0.04	3.3527	3.59	−0.02
Finland	3.04001	3.0411	+0.04	+0.05	3.0415	3.69	+0.08
Ireland	0.402676	0.4018	−0.22	−0.25	0.4022	4.24	+0.63
Italy	990.002	989.1136	−0.09	−0.08	990.5767	4.55	+0.94
Luxembourg	20.6255	20.6245	+0.00	+0.02	20.625	3.63	+0.02
Netherlands	1.12674	1.1274	+0.06	+0.09	1.1267	3.22	−0.39
Portugal	102.505	103.6623	+1.13	+0.11	103.6793	3.72	+0.11
Spain	85.0722	84.9922	−0.09	−0.03	85.0353	3.93	+0.32
Germany	1		+0.00	+0.00		3.61	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31-12-98. DEM forward interest rate for 31-12-98 is calculated by interpolation between published BBA market figures.

BONDS

INTEREST RATE SWAPS

Nov 03	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.49	3.52	3.59	3.64	6.42	6.45	4.55	4.88	0.38	0.41
2 year	3.49	3.52	3.54	3.58	5.99	6.03	4.78	4.81	0.47	0.50
3 year	3.61	3.64	3.64	3.68	5.94	5.98	4.90	4.53	0.58	0.61
4 year	3.76	3.79	3.79	3.83	5.93	5.97	5.01	5.04	0.66	0.71
5 year	3.92	3.95	3.94	3.98	5.91	5.96	5.13	5.16	0.79	0.81
6 year	4.07	4.10	4.09	4.13	5.90	5.94	5.21	5.24	0.88	0.91
7 year	4.21	4.24	4.23	4.27	5.90	5.94	5.30	5.33	0.98	1.01
8 year	4.33	4.36	4.34	4.38	5.89	5.93	5.37	5.40	1.09	1.12
9 year	4.44	4.47	4.45	4.49	5.88	5.92	5.44	5.47	1.20	1.23
10 year	4.53	4.56	4.54	4.58	5.87	5.91	5.51	5.54	1.31	1.34
12 year	4.69	4.72	4.69	4.73	5.85	5.90	5.66	5.69	1.51	1.55
15 year	4.88	4.91	4.88	4.92	5.83	5.89	5.79	5.82	1.71	1.75
20 year	5.09	5.12	5.09	5.13	5.79	5.86	5.90	5.93	1.90	1.95
25 year	5.22	5.25	5.22	5.26	5.78	5.86	5.92	5.95	1.95	2.00
30 year	5.29	5.32	5.29	5.33	5.76	5.85	5.97	6.00	2.05	2.10

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Nov 03	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	NA	110.750	4.33	−0.05	+0.27	+0.01
France (Rep of)	04/08	5.250	AAA	107.320	4.23	−0.04	+0.27	−0.09
Italy (Rep of)	05/08	5.000	AA	104.200	4.44	−0.07	+0.15	+0.12
Portugal (Rep of)	06/08	5.375	AA−	106.610	4.51	−0.05	+0.26	+0.19
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.790	3.89	−0.03	+0.09	+0.07
Gen Electric Cap Crp	10/04	5.500	AAA	107.400	3.99	−0.04	+0.19	+0.09
Oest Kontrollbank	04/08	5.250	AAA	105.750	4.49	−0.04	+0.25	+0.17
Cred Local de France	04/08	5.250	AA+	103.750	4.75	−0.03	+0.35	+0.43
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA−	102.050	3.85	+0.05	+0.07	+0.12
Cred Foncier France	03/04	8.375	A	118.380	4.44	−0.07	+0.20	+0.54
Euro Inv Bank	04/04	5.250	AAA	106.720	3.65	−0.10	−0.04	−0.05
ABN Amro Hldg NV	04/07	6.375	AA−	110.180	4.97	−0.05	+0.25	+0.66

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1.1.99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1.1.99

GOVERNMENT BOND SPREADS vs ECU

Nov 03	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	−0.05	+0.05	+0.20	+0.00	−0.47	+0.03
Belgium	−0.06	+0.00	+0.08	+0.04	+0.00	−0.12
Finland	−0.13	+0.10	+0.23	+0.17	−0.52	−0.97
France	−0.16	−0.10	−0.11	−0.09	−0.05	−0.26
Germany	−0.18	−0.08	+0.05	−0.23	−0.11	−0.29
Ireland	+0.03	+0.00	+0.07	+0.10	+0.12	+0.38
Italy	+0.13	+0.18	+0.23	+0.22	+0.15	+0.04
Luxembourg	−0.06	+0.00	+0.08	+0.04	+0.00	−0.12
Netherlands	−0.08	+0.02	+0.09	−0.11	+0.19	−0.23
Portugal	−0.05	+0.16	+0.31	+0.20	+0.29	+0.10
Spain	−0.15	+0.02	+0.26	+0.23	+0.19	+0.04
"OUTs"						
Denmark	+0.45	+0.46	+0.45	+0.31	−0.04	+0.52
Greece	+6.88	+5.04	+4.07	+3.38	+2.46	+2.01
Sweden	+0.41	+0.43	+0.48	+0.34	+0.15	−0.30
UK	+1.71	+1.03	+1.00	+0.69	−0.01	−0.63

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Nov 03	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.15	+0.17	−0.08
France Telecom	AA+	11/06	6.250	FRF	+0.19	+0.23	+0.24
Halifax	AA	07/07	5.625	DEM	+0.42	+0.46	+0.44
Ing Bank NV	AA−	01/08	5.500	NLG	−0.18	+0.32	+0.14
Bayer Hypo W Bk	AA−	02/02	6.750	ITL	+0.26	+0.24	+0.29
Cred Foncier	A	02/03	7.250	DEM	+0.58	+0.60	+0.51
Thomson-Brandt Int	A−	03/04	6.375	FRF	+0.49	+0.48	+0.41
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.38	+0.37	+0.37
Bank of China	BBB	07/99	7.125	DEM	+2.25	+2.46	+2.40
Natl Bk of Hungary	BBB−	06/01	9.000	ATS	+1.12	+1.47	+1.98
Korea Dev Bank	BB+	11/02	5.625	FRF	+6.38	+6.84	+8.11
Argentina	BB	04/08	8.125	XEU	+5.56	+5.68	+7.75

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Gilts surge on cancelled auction

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices rebounded yesterday after Monday's poor performance, spurred on by weaker equities and interest rate cuts across Europe.

In the UK, gilts surged after markets sensed the supply outlook was likely to be positive for prices after the debt management office cancelled a gilt auction planned for March 1999.

Gordon Brown, chancellor of the exchequer, in a pre-Budget report to parliament, forecast next year's current account budget surplus at £1bn, rising to £3bn in 2000-01 and £8bn in 2001-02.

"The underlying public finances are pretty good so he [Mr Brown] can probably afford to lose a gilt auction," said Julian Jessop, Nikko's chief European economist.

Speculation that core European countries might be on the verge of reducing interest rates increased after Spain, Portugal and Sweden cut key rates.

"They're cutting a bit quicker than expected and their rates have largely converged so the next move may be for everyone to cut too, including Germany and France," said James Mitchell at Nomura.

The US bond market, however, had a relatively quiet day, with investors focused on mid-term congressional elections and the start of a $38bn refunding programme.

US Treasuries gained ground after the European rate cuts. By early afternoon the benchmark 30-year bond was up $\frac{5}{16}$ to 104⅝, sending the yield down to 5.209 per cent. The 10-year note had gained ¼ to 106$\frac{29}{32}$, yielding 4.732 per cent and the two-year note was $\frac{1}{32}$ higher at 99¼, yielding 4.265 per cent.

A morning report showed that US leading economic indicators for September were unchanged for a second month.

There were also some reports of central bank buying of Treasuries.

"It's more of a supply story today," said Terrence Pigott, head of government trading at Daiwa Securities America. "We've had a little bounce back but not much of one. It's really pretty quiet."

In UK gilts, the December 10-year gilt future settled up 7 basis points at 115.01 in volume of 45,000 contracts traded.

Analysts said that although the cancellation of the gilt auction was appropriate given the current snapshot of public finances, there was some scepticism as to whether Mr Brown's forecasts for public finances would hold.

"We get a dilemma for the chancellor because if [economic] growth is slower he'll have to face a decision on whether to maintain spending pledges but raise taxes or expand borrowing more aggressively," said Rob Hayward, at Bank of America. Greater borrowing implies increased supply in the gilt market, which tends to depress prices.

German bunds ended higher with the benchmark December 10-year bund future 69 basis points higher at 112.53 in late trading. Prices were partly buoyed by weak shares.

Derivative volumes fall in Europe

By Jeremy Grant

Volumes on Europe's main derivatives exchanges fell sharply in October compared with the previous month.

Analysts attributed this to a drying up of speculative activity on European currencies before the launch of the euro and the popularity of Frankfurt's bund future as a safe haven.

Matif, the French exchange, reported a 32 per cent fall in trading volume, which it blamed on growing caution among traders and problems at hedge funds.

Hedge funds have dramatically scaled back their participation in derivatives after recent difficulties.

Matif is fighting what many see as a losing battle to win market share in euro-denominated futures contracts but Eurex, the German-Swiss exchange, is attracting increasing volume in its bund products as they are seen as likely to be the benchmark contracts after the launch of the euro.

The London International Financial Futures and Options Exchange said October's volumes had dropped 10 per cent month-on month and 39 per cent year-on-year.

Brian Williamson, chairman, warned: "We are seeing less activity in the underlying cash markets and are entering a difficult and tough environment, mainly influenced by reduced volatility differentials in European markets as a result of economic convergence."

● Matif plans to switch interest rate options trading to its electronic screen-based system next week, marking the final stage in its abandonment of pit-based trading. It launched its main electronic platform in April.

NEWS DIGEST

FUTURES

CME launches bankruptcy index credit derivative

The Chicago Mercantile Exchange, one of the two big US futures exchanges, yesterday launched its new bankruptcy index contract, the first exchange-traded credit derivative. Scott Gordon, CME chairman, said the organisation hoped it would be "the first of many credit derivatives" at the exchange. The contract is targeted at players in the consumer credit markets – from credit card companies to holders of car loans and big department store groups – and works on the principle that there is a strong correlation between credit charge-off rates and the level of bankruptcy filings.

The CME said yesterday it hoped liquidity on the "sellers'" side would be provided by a mixture of insurance companies, reinsurance and investment groups, foreign banks, and speculators. The futures, outlined in April, are based on a CME quarterly bankruptcy index, in turn devised from bankruptcy court data collated by First Data Corp. They are sized at $1,000 times the new index, with a tick size of 0.025, which would be equivalent to 25 bankruptcy filings and valued at $25. The contracts will trade by open outcry in the morning and early afternoon, and then electronically after hours. **Nikki Tait, Chicago**

FINANCIAL STRENGTH RATINGS

Saudi banks' outlooks revised

Moody's Investors Service has revised the financial strength rating outlook of three Saudi banks. Saudi American Bank's stable outlook of C plus was changed to negative, while the D plus positive outlooks of National Commercial Bank and Saudi Hollandi Bank changed to stable.

Moody's had recently warned of possible downgrades of Gulf banks' financial strengths. The agency said yesterday the changes reflected the economic slowdown in Saudi Arabia because of persistently low oil prices and the expectation that they would remain subdued.
Roula Khalaf

SYNDICATED LOANS

Close Brothers must pay more

Close Brothers Group, the second largest quoted UK investment bank after Schroders, has had to pay more this year to finance its loan portfolio, thanks to market conditions. Unlike some other banks, Close Brothers does not rely on deposits, but borrows long to lend short. The five-year £100m multi-currency revolving credit facility launched on Monday pays 27.5 basis points over Libor, up from 22.5 points for a £130m facility in October 1997. Den Danske Bank is arranging the latest facility, replacing Barclays Capital, which arranged last year's deal. **Clay Harris**

Further revival for corporates

INTERNATIONAL BONDS

By Khozem Merchant

Household Finance Corp, one of the largest consumer finance companies in the US, yesterday issued a DM1bn bond, the latest of several recent large-scale issues signalling a revival in the European corporate bond market.

The seven-year issue was priced to yield 130 basis points over the German benchmark and tightened almost two basis points in the secondary markets.

Bankers said 90 per cent of the offering was taken up by European investors in a clear indication of the return of liquidity in the euromarkets. "Investors really wanted an issue that gives them a step towards the euro and that is why this offering attracted a pan-European response, said Xavier Werner at ABN Amro, the co-lead arranger with Deutsche Bank.

Argentina, which last month became the first emerging market borrower to tap the global capital markets since the Russian crisis, with the exception of Lebanon, returned to the market with a $300m add-on to a $1bn bond issued in 1996.

Yesterday's bond, arranged by Chase Securities, was priced wider than the 1996 issue to yield 673 basis points over US Treasuries and attracted institutional investors from the US and Europe. Last week Argentina issued a DM500m 10-year bond.

Most of yesterday's offerings were rated between single A and double A, typical of the pattern this week.

AMP, Australia's largest life assurer, issued a 12-year £160m bond, its first in sterling. It was priced to yield 130 basis points over the gilt benchmark and was led by Warburg Dillon Read.

Irish Permanent Treasury brought a £100m three-year floating-rate note, its first sterling issue in a year. It was priced to yield 14 basis points over Libor and was arranged by Barclays Capital. Investors included UK and Irish banks as well as buyers from continental Europe.

General Electric Capital Corp, the financing arm of General Electric, issued a $100m note maturing in five years, following this week's $400m issue. The latest deal, arranged by Warburg, was priced to yield 62 basis points over US Treasuries.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Republic of Argentina(a)	300	11.00#	98.28	Oct 2006	0.75	-	Chase Securities
World Bank(b)	250	4.75	99.308R	Nov 2003	0.20R	+48(5¼Aug03)	ABN Amro/Warburg DR
First Security Bank‡	150	(c)	99.87R	Nov 2003	0.10R	-	Deutsche Bank
GECC(d)	100	5.00	99.655	Nov 2003	0.25	+62(WI 5yr)	Warburg Dillon Read
DSL Bank(f)	75	4.50	99.07R	Jul 2001	0.1875R	+45(5¾May01)	Nomura International
■ D-MARKS							
Household Finance Corp	1bn	5.25	99.315R	Nov 2005	0.375R	+130(Oct05)	ABN Amro/Deutsche Bank
■ STERLING							
AMP UK Financial Sevices	160	6.375	99.204	Nov 2010	0.45	+130(Oct08)	Warburg Dillon Read
Irish Permanent Treasury‡	100	(g)	99.962R	Nov 2001	0.125R	-	Barclays Capital
■ FRENCH FRANCS							
Pathé(h)§	1.15bn	3.00(i)	100.00	Nov 2003	2.50	-	CSFB
■ ITALIAN LIRE							
World Bank‡	100bn	(j)	99.75R	Dec 2018	0.50R	-	Morgan Stanley DW
■ SWISS FRANCS							
GECC(k)	200	2.00	101.70	Mar 2002	1.50	-	Deutsche/Warburg DR
■ CANADIAN DOLLARS							
Farm Credit Corp	100	5.00	99.805R	Dec 2001	0.1875R	+17(7%Sep01)	TD Securities
■ NEW ZEALAND DOLLARS							
Deutsche Finance Neths	100	6.00	98.20R	Nov 2003	0.15R	+94.3(i)	Deutsche/RBC
■ LUXEMBOURG FRANCS							
Banque Generale du Lux	2bn	5.00	102.50	Dec 2008	2.00	-	BGL
■ SWEDISH KRONOR							
Crédit Local de France	500	5.00	102.55	Dec 2004	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $1bn. Plus 31 days accrued. b) $750m launched 26/10/98 increased to $1bn. c) 3-mth Libor +37½bp. d) $300m launched 23/10/98 was increased to $400m. f) Fungible with $200m. Plus 127 days accrued. g) 3-mth Libor +10bp. h) Exchangeable into shares of BSkyB at 475p; cash delivery option. FX: FFr9.225/£. Callable from 24/11/01 subject to 125% hurdle at par. i) Over interpolated yield. j) 12% in yr 1, 5½% in yr 2, 5 in yr 3, 4½% in yrs 4-5, 4 in yrs 6-10, then 15% -2 x 12-mth Libor, max 8%. k) Fungible with SFr550m. Plus 262 days accrued. l) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.8248	4.45	+0.12	+0.12	-0.03	-0.47
	08/08	8.750	127.8977	5.09	+0.15	+0.13	+0.13	-0.94
Austria	07/00	5.875	103.7800	3.53	-0.08	-0.02	+0.09	-1.04
	01/08	5.000	104.7300	4.36	-0.04	-0.01	+0.26	-1.32
Belgium	01/00	4.000	100.5900	3.49	-	+0.05	+0.04	-0.92
	03/08	5.750	110.7500	4.33	-0.05	-0.01	+0.27	-1.45
Canada	12/00	5.000	100.6800	4.65	-0.01	+0.13	-0.11	+0.65
	06/08	6.000	108.3100	5.16	-0.02	+0.17	+0.32	-0.38
Denmark	11/00	9.000	109.4100	4.04	-0.04	-0.04	-0.33	-0.79
	11/07	7.000	116.8100	4.67	-0.02	-0.03	+0.24	-1.50
Finland	01/99	11.000	101.3841	3.02	-0.04	-0.02	+0.09	-1.33
	04/08	6.000	111.6540	4.46	-0.08	-0.01	+0.22	-1.32
France	07/00	4.000	100.9200	3.41	-0.02	+0.01	+0.05	-0.99
	10/05	7.750	123.1700	3.88	-0.05	+0.04	+0.25	-1.45
	10/08	8.500	134.0800	4.23	-0.05	+0.02	+0.27	-1.41
	04/29	5.500	104.4800	5.20	-0.03	-0.02	+0.35	-1.05
Germany	06/00	4.000	100.9100	3.40	-0.05	-	+0.13	-0.85
	10/05	6.500	114.6800	4.03	-0.06	+0.03	+0.22	-1.30
	07/08	4.750	104.8300	4.13	-0.05	+0.02	+0.28	-1.50
	01/28	5.625	105.4100	5.36	+0.02	+0.03	+0.47	-0.89
Ireland	10/01	6.500	107.7800	3.67	-0.05	-0.03	+0.01	-1.73
	08/06	6.000	112.4200	4.41	-0.04	-0.02	+0.25	-1.69
Italy	04/01	4.500	101.9100	3.66	-0.02	+0.01	-0.08	-1.72
	07/03	4.500	102.4400	3.92	-0.04	+0.02	+0.02	-1.75
	05/08	5.000	104.0000	4.47	-0.01	+0.05	+0.19	-1.68
	11/27	6.500	115.9000	5.40	-0.02	-0.02	+0.22	-1.26
Japan	12/00	6.900	113.8300	0.32	-	-0.03	+0.03	-0.14
	12/03	4.100	117.3100	0.65	-	-0.09	+0.06	-0.59
	09/06	1.900	108.8400	0.86	-	-0.08	+0.18	-0.82
	03/18	2.700	120.4400	1.48	-	-0.06	+0.24	-0.99
Netherlands	05/00	9.000	108.0200	3.45	-0.03	+0.06	+0.01	-0.90
	07/08	5.250	108.0800	4.21	-0.05	+0.02	+0.25	-1.39
New Zealand	02/01	8.000	105.7299	5.23	+0.04	-0.14	-0.22	-1.69
	07/09	7.000	111.5852	5.55	+0.09	-0.01	+0.08	-1.10
Norway	01/99	9.000	100.1300	7.86	+0.03	+0.22	+0.06	+3.33
	01/07	6.750	107.8000	5.53	-0.01	+0.05	+0.27	-0.28
Portugal	03/00	5.375	102.4300	3.51	-0.10	+0.05	-0.01	-1.61
	06/08	5.375	106.8500	4.48	-0.03	-	+0.28	-1.58
Spain	04/00	6.750	104.4900	3.45	-0.04	-	-0.01	-1.43
	01/08	6.000	111.3200	4.47	-0.08	-	+0.28	-1.55
Sweden	05/00	10.250	108.9150	3.92	-0.04	-0.24	-0.31	-1.20
	05/08	6.500	114.0750	4.63	-0.01	-0.11	+0.08	-1.77
Switzerland	06/00	4.500	104.9600	1.31	+0.02	+0.05	+0.03	-0.74
	01/08	4.250	112.8500	2.65	-0.02	-0.01	+0.19	-0.98
UK	11/01	7.000	105.2300	5.10	-0.10	-0.15	+0.02	-1.79
	12/03	6.500	107.4800	4.82	-0.11	-0.16	+0.14	-1.79
	10/08	9.000	131.2700	4.97	-0.13	-0.08	+0.40	-1.61
	12/28	6.000	118.5300	4.83	-0.02	-0.05	+0.43	-1.67
US	09/00	4.500	100.2828	4.34	-0.02	+0.25	+0.08	-1.37
	08/03	5.250	103.8018	4.36	-0.02	+0.16	+0.18	-1.59
	05/08	5.625	106.8635	4.72	-0.04	+0.12	+0.43	-1.18
	08/28	5.500	104.4930	5.20	-0.03	+0.12	+0.22	-1.01
ECU	07/00	4.000	100.8200	3.48	-0.03	+0.01	+0.03	-1.23
	04/08	5.250	107.5200	4.26	-0.05	+0.02	+0.26	-1.53

London closing. * New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Nov 3	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.10	+1.01	+0.38	New Zealand	5.55	+1.46	+0.83
Austria	4.32	+0.23	-0.40	Norway	5.54	+1.45	+0.82
Belgium	4.36	+0.27	-0.36	Portugal	4.52	+0.43	-0.20
Canada	5.17	+1.08	+0.45	Spain	4.55	+0.46	-0.17
Denmark	4.63	+0.54	-0.09	Sweden	4.66	+0.57	-0.06
Finland	4.49	+0.40	-0.23	Switzerland	2.74	-1.35	-1.98
France	4.23	+0.14	-0.49	UK	5.01	+0.92	+0.29
Germany	4.09	-	-0.63	US	4.72	+0.63	-
Ireland	4.42	+0.33	-0.30	ECU	4.32	+0.23	-0.40
Italy	4.54	+0.45	-0.18				
Japan	0.87	-3.22	-3.85				
Netherlands	4.21	+0.12	-0.51				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Nov 3	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	84.4824	12.90	+0.16	+1.66	+8.58
Poland	07/04	7.125	BBB-	103.8703	6.28	+0.03	-0.59	+1.85
Russia	06/07	10.000	CCC-	24.3750	45.12	+0.98	-8.03	+40.47
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	88.0940	11.14	+0.12	-0.92	+5.98
Brazil	05/27	10.125	BB-	69.7500	14.83	+0.05	-2.34	+9.45
Mexico	05/26	11.500	BB	104.8120	10.94	-	-1.02	+5.79
■ ASIA								
China	07/06	7.750	BBB+	107.2464	6.51	+0.18	-1.78	+1.93
Philippines	10/16	8.750	BB+	87.6000	10.29	+0.07	-2.84	+5.38
Thailand	04/07	7.750	BBB-	88.6115	9.57	+0.16	-2.45	+4.92
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.5000	6.87	-0.31	-0.80	+2.84
South Africa	10/06	8.375	BB+	87.6899	10.75	+0.25	-1.71	+8.17
Turkey	09/07	10.000	B	89.0000	12.06	-0.84	-1.62	+7.43
■ BRADY BONDS								
Argentina	03/23	5.750	BB	69.8750	9.08	+0.07	-0.47	+4.00
Brazil	04/14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	12/19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	03/20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.78	109.06	+0.16	109.15	108.50	83,131	100,118

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
107	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
108	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
109	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
110	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Germany

■ NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4272
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0

■ NOTIONAL GERMAN BOND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	712,316
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	25,891

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls			Puts		
11200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls			Puts		
11050	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11150	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls			Puts		
11500	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11550	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11600	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	103.20	+0.05	-	-	1	326

US CORPORATE BONDS

Nov 2	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	106.5388	5.25	+0.06	+0.10	+1.02
NY Tel	08/25	7.00	A+	101.5202	6.87	+0.05	+0.56	+1.72
CWE	05/08	8.00	BBB	113.6935	6.05	+0.07	+0.34	+1.44
■ FINANCIALS								
GECC	05/07	8.75	AAA	121.6482	5.53	+0.11	+0.13	+0.92
Banc One	08/02	7.25	A	105.8533	5.49	+0.07	+0.10	+1.26
CNA Fin	01/18	6.95	A-	96.6798	7.27	+0.07	+0.34	+2.12
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1936	5.73	+0.03	+0.20	+1.72
Wal Mart	05/02	6.75	AA	105.7751	4.94	+0.07	+0.22	+0.71
Dayton Hud	06/21	9.70	BBB+	131.4486	6.92	+0.06	+0.43	+1.77
■ AGENCIES								
FHLMC	04/07	7.14	N/A	112.4714	5.29	+0.09	+0.30	+0.68
SLMA	03/00	7.50	N/A	103.4099	4.85	+0.05	+0.10	+0.74
FNMA	02/18	6.95	N/A	136.4848	5.78	-0.15	+0.22	+0.63
FFCB	08/05	6.95	N/A	123.1623	5.21	+0.09	+0.24	+0.60
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	100.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	103.2500	0.00	-	-	-
Pacalta	05/04	10.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US INTEREST RATES

Latest		Treasury Bills and Bond Yields	
Prime rate	[illegible]	One month	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]
Fed.funds	[illegible]	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]
		One year	[illegible]

INTERNATIONAL BONDS

Nov 3	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	109.9000	4.30	-0.09	+0.16	+0.11
Spain	01/07	5.750	AA	109.4000	4.35	-0.07	+0.25	+0.16
Philip Morris	03/04	5.375	A	103.9000	4.53	-0.08	+0.10	+0.06
Finland FRN	09/02	3.531	AA	100.5931	3.07	-0.08	+0.18	-0.55
■ EURO FFR								
Austria	01/04	5.500	AAA	107.3000	3.92	-0.07	+0.11	+0.14
Abbey Nat	02/04	6.000	AA	109.1300	4.04	-0.06	+0.16	+0.26
Cred Foncier	02/04	9.125	A	122.5100	4.27	-0.07	+0.15	+0.49
3CIF FRN	12/01	3.617	AA-	99.9137	3.44	-0.08	+0.09	-0.09
■ EURO LIRA								
EIB	02/07	7.000	AAA	117.8100	4.38	-0.04	+0.17	-0.05
Abbey Nat	02/02	6.800	AA	108.6200	3.95	-0.02	+0.09	+0.08
Walt Disney	06/00	8.625	A	107.0700	4.02	-0.01	-0.07	+0.30
EIB FRN	03/01	4.743	AAA	100.0872	3.48	-0.03	-0.09	-0.25
■ EURO £								
EIB	12/07	7.625	AAA	114.6373	5.53	-0.14	-0.08	+0.58
Dresdner Bk	12/07	7.750	AA-	105.8535	6.86	-0.05	+0.35	+1.91
British Gas	03/00	7.625	A+	101.6548	6.31	-0.08	-0.16	+1.01
Abbey Nat FRN	02/02	7.300	AA	99.9917	5.05	-0.06	-0.01	+0.09
■ EURO $								
EIB	04/07	7.250	AAA	112.8800	5.31	-	+0.32	+0.66
ABN Amro	06/07	7.125	AA-	105.2412	6.31	+0.01	+0.47	+1.66
Quebec	01/07	7.000	A+	108.2999	5.72	+0.01	+0.41	+1.07
Citicorp FRN	02/04	5.750	A+	96.8732	6.45	+0.01	+1.23	+2.02
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.3825	5.48	+0.02	+0.20	+0.13
Toronto	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bell Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutsche B FRN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ EURO YEN								
World Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cred Foncier	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy FRN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard. Source: Interactive Data/FT Information.

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Nov 3	Day's change %	Mon Nov 2	Accrued interest	xd adj. ytd	Low coupon yield			Medium coupon yield			High coupon yield		
1 Up to 5 years (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks (45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Index-linked: 6 Up to 5 years (2); 7 Over 5 years (9); 8 All stocks (11) [illegible]

FT Fixed Interest Indices [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest [illegible]

CURRENCIES & MONEY

Spanish central bank jumps the gun

MARKETS REPORT

By Alan Beattie

Unexpectedly early cuts in Spanish and Portuguese interest rates yesterday encouraged lingering suspicions that Germany and France might loosen policy later this week.

The peseta was little changed against the D-Mark at the end of London trading at Pta84.99, though the escudo softened somewhat. The D-Mark itself fell against the dollar, finishing nearly a pfennig lower at DM1.659.

The cuts enlivened an otherwise quiet day on the currency markets, in which a Japanese public holiday took even more volume out of a thin market.

The dollar finished in London marginally higher against the yen, closing at Y115.3 compared with Y114.9 on Monday. And sterling largely ignored the Chancellor's pre-budget report, closing down over a cent against the dollar at $1.657 on fears about a weakening domestic economy.

■ The Spanish central bank's move, followed some hours later by Portugal, reawakened some suspicion that early interest rate convergence in the euro bloc will allow the European Central Bank (ECB) to cut rates before the end of 1998.

"My reading is that there is something on a bigger scale behind this," said Henrik Lumholdt at the Bank of America in Madrid. "It is difficult for the core European countries to move very much before convergence is complete and Spain is helping to make that possible. The speed with which this is happening is telling us something," he added.

But other analysts pointed to the change in the Bank of Spain's method of rate-setting as the primary reason for the move.

"True, the cut was 2-3 weeks before everyone expected," said Jose Luis Alzola, economist at Salomon Smith Barney-Citibank in London. "But that may have been because the Bank of Spain had just introduced a repo auction system and thought it might as well make both changes at once."

The ECB's council met yesterday amid political pressure for a looser monetary policy, and some confusion over who is minding the interest rate shop in Europe for the rest of the year.

The ECB has no formal power to change interest rates until the new year, but some Bundesbank officials have deflected debate over German rates by arguing that any move before then would be an ECB decision.

■ A less surprising interest cut in Sweden yesterday saw the repo rate lowered by 25 basis points to 3.85 per cent.

After an initial wobble against the D-Mark, the krona was broadly unmoved by the news, the markets having expected the move. The currency closed in London at SKr4.708 against the D-Mark, little changed from SKr4.708 on Monday.

■ The Indonesian rupiah weakened yesterday after fears that failure to make progress on democratic reforms could threaten the country's fragile social and political stability.

The rupiah fell against the dollar, finishing London trading at Rp8525.00, compared with a rate of Rp7950.00 on Monday. The fall came on a day when most other Asian currencies remained little moved.

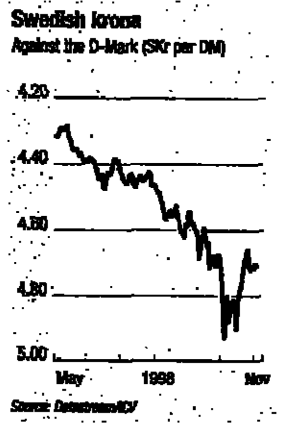
The Indonesian consultative assembly (MPR) is due to meet next week to push through electoral reforms and set a date for parliamentary elections next year. Violent public unrest has often accompanied meetings of the MPR in the past, and failure to move forward on the democratic front may threaten future social stability, weakening the rupiah.

■ The Moldovan currency exchange again cancelled the official currency auction yesterday as speculative attacks drove the Moldovan leu outside the permitted 10 per cent daily movement against the dollar.

Mass buying of dollars by private individuals as well as banks and companies led to the central bank refusing to intervene to prop up the battered leu.

The currency was then traded on the interbank market without the presence of the central bank at values of up to 30 per cent less than the last posted official rate of 6.4 leu to the dollar.

Swedish krona
Against the D-Mark (SKr per DM)



Source: Datastream/ICV

■ POUND IN NEW YORK

Nov 3	—Latest—	— Prev. close —
£ spot	1.6590	1.6635
1 mth	1.6563	1.6607
3 mth	1.6521	1.6563
1 yr	1.6360	1.6403

■ OTHER CURRENCIES

Nov 3	£	$
Czech Rp	47.8522 - 47.9428	28.8910 - 28.9300
Hungary	355.508 - 355.983	214.640 - 214.810
Iran	4971.60 - 4988.90	3000.00 - 3000.00
Kuwait	0.4992 - 0.5000	0.3014 - 0.3017
Peru	5.1064 - 5.1116	3.0830 - 3.0845
Poland	5.6598 - 5.6708	3.4170 - 3.4220
Russia	26.2524 - 26.5135	15.8500 - 15.9990
UAE	6.0831 - 6.0869	3.6727 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Nov 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.3344	-0.0349	257 - 430	19.3894	19.2974	19.2732	3.8	19.1729	3.3	18.8219	2.7	103.6
Belgium	(BFr)	56.6808	-0.112	239 - 376	56.8520	56.5790	56.501	3.8	56.2001	3.4	55.1203	2.8	103.7
Denmark	(DKr)	10.4489	-0.0177	433 - 544	10.4756	10.4288	10.4251	2.7	10.3819	2.6	10.2365	2.0	107.4
Finland	(FM)	8.3575	-0.0159	511 - 639	8.3790	8.3410	8.3318	3.7	8.2873	3.4	8.1293	2.7	82.8
France	(FFr)	9.2143	-0.0172	107 - 178	9.2379	9.1960	9.1849	3.8	9.1359	3.4	8.9619	2.7	107.3
Germany	(DM)	2.7482	-0.0049	470 - 493	2.7567	2.7421	2.7394	3.9	2.725	3.4	2.6728	2.8	105.2
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.6701	+0.0568	680 - 721	11.7050	11.6320	11.6518	1.9	11.6208	1.7	11.5211	1.3	103.4
Belgium	(BFr)	34.2120	+0.1605	870 - 370	34.3150	34.1600	34.1583	1.9	34.0625	1.7	33.7385	1.4	103.7
Denmark	(DKr)	6.3069	+0.0314	052 - 085	6.3261	6.2869	6.3026	0.8	6.2924	0.9	6.2658	0.7	106.7
Finland	(FM)	5.0445	+0.024	420 - 470	5.0599	5.0305	5.037	1.8	5.0229	1.7	4.976	1.4	82.2
France	(FFr)	5.5617	+0.0267	610 - 623	5.5794	5.5457	5.5529	1.9	5.5373	1.8	5.4857	1.4	106.9
[illegible]													
			-	504 - 507	3.7508	3.7500	3.7524	-0.6	3.7578	-0.8	3.7838	-0.9	-
			-0.004	195 - 205	1.6285	1.6190	1.6155	3.4	1.6076	3.1	1.5865	2.1	-
			-	200 - 400	5.6575	5.8000	5.695	-13.9	5.81	-12.8	6.305	-12.0	-
			-4.5	300 - 600	1320.00	1312.00	-	-	-	-	-	-	-
			+0.0345	540 - 670	32.4700	32.4300	32.4505	0.0	32.4655	-0.4	32.7105	-0.8	-
			-	000 - 000	36.7200	36.6000	36.675	-0.8	36.825	-1.9	37.8	-3.1	-

[illegible] Malaysian Official rate remains fixed at 3.8 ringgits to the US Dollar. Bid/offer spreads in the Dollar Spot table show [illegible] & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 2: Base average 1990=100. Bid, offer, mid spot rates and forward rates [illegible] from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. [illegible] available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

[illegible]

■ $ LIBOR BBA London

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH EURO EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		96.700	+0.015			0	2169
Sep		96.705	+0.015			0	1263

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
98375	0.060			0.095		
98500	0.030	0.240	0.330	0.180	0.100	0.140
98625	0.020			0.305		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 73318 Puts 80459

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES & AGRICULTURE

Russia welcomes diamond deal with De Beers

By Arkady Ostrovsky in Moscow

The cash-strapped Russian government yesterday welcomed a marketing agreement signed between *Almazy Rossii-Sakha* (Alrosa), the country's largest rough, or uncut, diamond producer, and De Beers of South Africa.

The deal, worth $60m to $100m a month depending on marketing conditions, extends for three years an agreement with De Beers to market Russian diamonds.

It is particularly important for the Russian government, which owns 32 per cent of Alrosa and which is running a huge budget deficit.

Russian diamonds make up about a quarter of total sales by De Beers' London-based Central Selling Organisation, which, in turn, accounts for more than *60 per cent of world trade* in rough diamonds.

Yevgeny Primakov, the Russian prime minister who met De Beers in Moscow, said Russia was interested in long-term co-operation with the South African cartel.

"We are working on a very important territory for us and considering your *position in this field, we are* interested in our further co-operation," he said.

Under the deal, Alrosa agreed to sell at least $550m of diamonds a year – half its output – through De Beers. It can also sell 5 per cent of its diamonds on the international market independently. The two sides will set up a *watchdog* to monitor the implementation of the agreement and prevent "leakages" of diamonds from Russia through unofficial channels.

The agreement follows disagreements that peaked in January 1997 when De Beers stopped formal arrangements with Russia after 40 years. Viacheslav Shtyrov, president of Alrosa, which produces 98 per cent of Russian rough diamonds, said it was this year's most important event for diamonds.

Demand for diamonds has been badly hit by the Asian financial crisis this year and Nicky Oppenheimer, chairman of De Beers, said: "In the present conditions of destabilisation of the world diamond market, only joint efforts by large diamond producers can settle the situation."

OBITUARY: BOB SMITH

A miners' miner at Barrick Gold

Bob Smith, vice-chairman of Barrick Gold, who died last week aged 66, was one of the main figures in the revival of North America's gold mining industry in the 1980s.

In 1984 he formed what seemed an unlikely partnership with Peter Munk, who had founded what was then called American Barrick the previous year. The two men could not have been more different in personality.

Hungarian-born Munk is flamboyant. Smith was modest, self-effacing, even taciturn, and a "miners' miner" who once said: "I'm an operator. I love getting out to the mines, talking to miners. They are the heart and soul of this company."

Within 10 years the two men had turned Barrick into the biggest gold producer outside South Africa.

Smith brought to this combination his mining expertise and an ability to get the best out of his people, who had a great affection and admiration for him. Munk contributed entrepreneurial drive and financial skills.

Barrick produced more than 3m ounces of gold last year and the hedging that Munk made a cornerstone of the business enabled it to collect $420 an ounce, $88 above the average spot price.

In 1986 Barrick acquired the Goldstrike property on the Carlin Trend in Nevada. The Carlin became the biggest gold region outside South Africa. Barrick paid $62m for about 10 per cent of the Trend, or 7,000 acres.

The two mines on Goldstrike last year produced more than 2.1m ounces of gold and have nearly 30m ounces in reserves.

Extracting the Goldstrike gold was not easy, however. The precious metal is locked up in sulphide ore and is difficult to release. In addition, most of the ore is below the water table and the most extensive dewatering system in the US had to be installed.

Smith always insisted that what was achieved came from team work, but without his persistence, patience and leadership Barrick would not have got the most out of the property's potential.

Smith was the son of an accountant and grew up in Haileybury on the north shore of Lake Temiskaming in the heart of Ontario's silver mining country.

He graduated in mining engineering from the University of Toronto and by 1979 was president of a small company called Camflo. In 1984 Munk took over Camflo.

One Camflo executive advised Munk to fire the "difficult" Smith, but instead he appointed him president and chief operating officer, a role he retained until 1996.

He is survived by his wife, Jane Ann, and daughter, Janet.

BHP makes a pipe dream come true

Canada's Ekati diamond mine is a triumph of co-operation, writes **Scott Morrison**

The Ekati diamond mine sits alongside an important caribou migration route in Canada's desolate Northwest Territories.

Grizzly bears and other wild animals are known to pass by occasionally, but the region was rarely visited by man until Broken Hill Proprietary, the Australian group, began developing the site almost two years ago.

The logistical challenges of establishing a mine in the remote region around Lac de Gras, some 300 km north of Yellowknife, were compounded by an inhospitable climate that can send temperatures plummeting to minus 50 degrees Celsius.

The mine site was far from ideal and many sceptics believed hopes of extracting diamonds from the Canadian tundra were a pipe dream.

However, the operators of Canada's first diamond production facility celebrated victory with the opening of the US$700m mine last month. This was even more impressive given that BHP and Canadian minority partner Dia Met Minerals had to overcome a challenging political climate and contend with the demands of the region's native Indians.

BHP could not have foreseen the difficulties it would encounter, for it began developing the mine just as Canadian native groups were becoming much more assertive about their economic rights.

Moreover, territorial government leaders were determined to ensure the project would benefit the region. Ekati was viewed by native leaders and local politicians more as a vehicle for economic development than as a for-profit project.

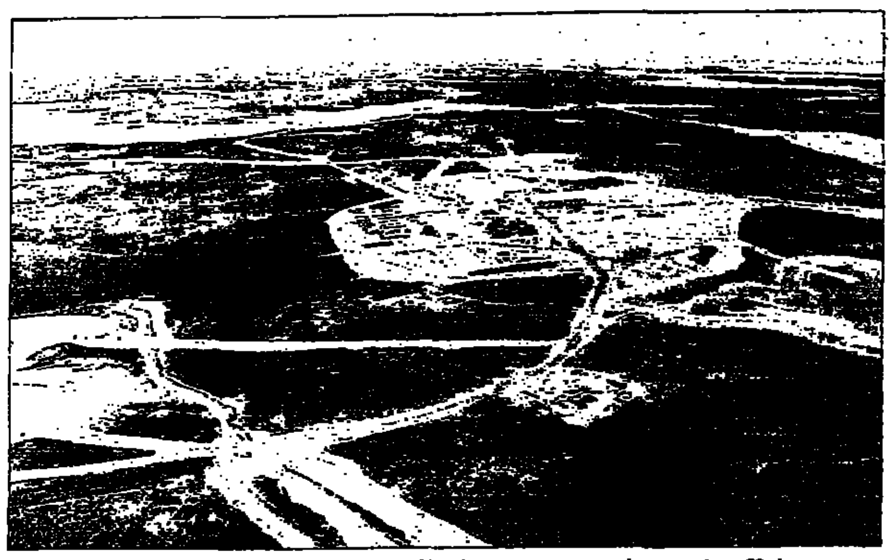
Territorial officials and native leaders acknowledge BHP was quick to understand that for the project to succeed, the interests of the local population would have to be taken into account.

The company spent several years negotiating with the territorial government and four native groups that claimed rights to the territory on which the diamond-bearing kimberlite pipes were discovered.

Graham Nicolls of BHP says the company was uncertain early on with whom it should be negotiating. Negotiations with native groups resulted in several impact benefit agreements that contain employment targets, training provisions and other elements, including a financial component, the details of which remain secret.

Native and territorial leaders were also very concerned about protecting the environment and demanded that the company divert waterways, safeguard against tailing spills and maintain the purity of a number of small lakes at the mine site.

The secondary waste treatment plant at Ekati is the only one in the Northwest Territories and some observers have noted that BHP has been held to higher standards than any other mining group in the jurisdiction.



Hard graft: establishing the mine has meant working in temperatures as low as minus 50 degrees

BHP's challenges extended far beyond the mine site as territorial leaders had other priorities. With the government cutting jobs and the recent closure of several gold mines, officials increased pressure on BHP to deliver additional economic benefits.

In possibly the most contentious issue, government leaders demanded that BHP build a sorting and evaluation centre in Yellowknife and sell 10 per cent of the mine's output to buyers within the territory.

Officials believed that would facilitate the creation of a regional diamond cutting industry. Failure to meet the demands, warned the territorial finance minister, would lead to the implementation of a "tax regime that would choke a mule".

Although BHP was under no legal obligation, it agreed to build the centre and meet the demand of local diamond manufacturers that pay fair market value but it is not bound to provide a specific percentage of production to local buyers.

Despite widespread initial scepticism about the project, all parties involved praised the co-operative effort that enabled the mine to open.

Ekati is expected to produce 3.5m to 4.5m carats a year soon, generating about US$400m-$500m in annual revenues. Native Indians have received training and jobs at the mine, as well as financial compensation.

Local service and supply groups suffering from a drop in gold production have been revived by Ekati contracts. Sirius Diamonds will soon become the first gemstone producer to operate from Yellowknife, with several other groups applying to launch ventures.

The territory's leaders admit that Ekati alone cannot offset losses from government cuts and reduced gold production, but say BHP was instrumental in establishing a co-operative, if occasionally difficult, partnership that will serve as a template for other corporations seeking to exploit the region's diamond potential.

More cuts seen in metals output

MARKETS REPORT

By Kenneth Gooding and Paul Solman

As aluminium and copper prices fell again on the London Metal Exchange yesterday, Flemings Global Mining Group pointed out that many metals are trading at levels not seen since the 1930s depression.

Nick Moore in Flemings' Commodity Companion suggested output cuts by metals producers have only just begun and "will rise to a crescendo in the first half of 1999".

There is not one bullish market outlook for base or precious metals, he said, only "bullish tendencies" for gold and perhaps tin.

Nickel provided the most action on the LME after its strong rise on Monday. In early trading nickel for delivery in three months rose to $4,160 a tonne. However, trading was subdued because of a national holiday in Japan and the metal drifted back to close unchanged at $4,080.

World oil prices dropped back below $13 a barrel as the market awaited the weekly report on US stocks from the American Petroleum Institute, due late last night. In addition, tensions between Iraq and the UN in the Middle East, which had helped prices early on Monday, appeared to have eased.

In late trading on London's International Petroleum Exchange, the December contract for Brent blend was $12.94, down from Monday's close of $13.06.

On the London International Financial Futures and Options Exchange, the greatest activity was in coffee, with traders watching reports on damage to arabica crops in central America. The January robusta contract ended up $28 at $1,698 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1292.5-3.5	1314-5
Previous	1301-03	1322-24
High/low		1326/1312
AM Official	1292-3	1315-6
Kerb close		1311-2
Open int.	*342,633*	
Total daily turnover	93,313	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1075-80	1110-15
Previous	1090-95	1127-28
High/low		1117/1115
AM Official	1081-3	1114-5
Kerb close		1115-20
Open int.	6,868	
Total daily turnover	2,692	

■ LEAD ($ per tonne)

Close	475.5-6.5	486-7
Previous	480-81	490-91
High/low		488/487
AM Official	477-7.5	487-7.5
Kerb close		487-8
Open int.	40,672	
Total daily turnover	7,147	

■ NICKEL ($ per tonne)

Close	3995-4005	4060-70
Previous	3965-75	4030-35
High/low		4130/4050
AM Official	*4020-30*	*4095-100*
Kerb close		4075-80
Open int.	66,328	
Total daily turnover	18,892	

■ TIN ($ per tonne)

Close	5545-55	5500-05
Previous	5540-50	5495-500
High/low		5515/5500
AM Official	5540-50	5495-500
Kerb close		5515-20
Open int.	17,564	
Total daily turnover	9,161	

■ ZINC, special high grade ($ per tonne)

Close	946.5-7.5	968-7
Previous	952.5-53.5	972-73
High/low		968/963
AM Official	946.5-7.0	968-6.5
Kerb close		956-7
Open int.	89,633	
Total daily turnover	20,344	

■ COPPER, grade A ($ per tonne)

Close	1581-2	1608-9
Previous	1595-96	1621-22
High/low		1618/1606
AM Official	1582-3	1611-2
Kerb close		1606-7
Open int.	169,796	
Total daily turnover	46,055	

■ LME AM Official £/$ rate: 1.6558
LME Closing £/$ rate: 1.6565

Spot: 1.6589 3 mths: 1.6521 6 mths: 1.6452 9 mths: 1.6399

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	72.30	-0.10	72.35	72.00	443	1,735
Dec	72.55	-0.25	72.95	72.15	6,357	35,527
Jan	72.90	-0.25	72.75	72.70	13	2,354
Feb	73.15	-0.25	73.15	73.10	13	1,256
Mar	73.40	-0.25	73.75	73.10	504	9,293
Apr	73.70	-0.25	73.65	73.65	29	1,228
Total					7,557	67,988

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	288.40-288.90		
Opening	289.60-290.30		
Morning fix	290.10	175.255	393.231
Afternoon fix	288.60	174.402	391.197
Day's High	290.30-290.60		
Day's Low	288.20-288.50		
Previous close	292.10-292.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.69	6 months	3.68
2 months	4.25	12 months	3.17
3 months	4.15		

Silver Fix	p/troy oz.	US cts equiv.
Spot	498.00	299.62

Silver Lending Rates

1 month	3.70	6 months	1.55
2 months	3.10	12 months	1.73
3 months	3.00		

Gold Coins	$ price	£ equiv.
Krugerrand	286-300	173-180
New Sovereign	66-73	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	289.7	-1.2	291.7	288.7	31,398	86,193
Feb	291.9	-1.2	293.3	290.7	2,344	21,917
Apr	293.6	-1.2	294.5	292.5	461	15,150
Jun	295.1	-1.2	296.0	294.8	288	14,294
Aug	296.5	-1.2	-	-	24	5,304
Oct	297.9	-1.2	305.0	305.0	13	2,228
Total					34,780	185,049

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	341.0	+4.6	343.5	338.0	1,266	15,284
Apr	342.5	+4.6	344.0	340.5	69	423
Jul	343.5	+4.1	-	-	27	137
Oct	344.6	+3.7	344.0	344.0	91	893
Total					1,428	16,737

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	272.75	-0.25	274.00	272.50	94	2,367
Mar	271.65	+0.40	273.00	273.00	3	658
Jun	269.65	+0.40	269.00	269.00	-	-
Total					100	3,030

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	492.0	-11.0	503.0	486.0	6,475	42,553
Jan	494.1	-11.0	-	-	2	77
Mar	496.6	-10.8	502.5	491.0	205	16,457
May	498.9	-10.6	501.0	496.0	263	4,333
Jul	501.2	-10.5	505.0	503.0	11	2,878
Sep	502.3	-10.4	515.0	515.0	100	1,196
Total					6,961	74,489

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	14.16	-0.20	14.42	14.10	80,911	130.7k
Jan	14.37	-0.15	14.57	14.30	13,850	62,874
Feb	14.55	-0.14	14.66	14.52	5,765	33,820
Mar	14.75	-0.10	14.80	14.68	2,660	20,173
Apr	14.94	-0.16	-	-	261	14,926
May	14.95	-0.18	-	-	271	13,719
Total					88,058	475,186

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
Dec	12.86	-0.20	13.08	12.80	26,374	52,122
Jan	13.13	-0.13	13.65	13.08	15,653	56,420
Feb	13.38	-0.06	13.45	13.29	3,596	24,620
Mar	13.54	-0.04	13.62	13.46	1,273	17,088
Apr	13.71	-0.01	13.71	13.71	358	11,901
May	13.63	-	13.75	13.62	90	7,770
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	39.35	-0.01	39.60	39.05	13,078	56,758
Jan	40.55	-0.06	40.75	40.00	2,629	32,458
Feb	41.40	-0.06	41.60	41.15	1,650	25,200
Mar	41.80	-0.06	41.90	41.65	956	18,394
Apr	41.90	-0.01	42.00	41.80	280	9,179
Total					19,048	183,748

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	113.75	-1.75	114.50	112.75	7,076	32,961
Dec	117.25	-2.00	118.25	116.50	4,798	43,763
Jan	121.00	-1.75	121.50	120.00	1,893	25,450
Feb	124.00	-1.25	124.00	122.50	583	16,138
Mar	125.75	-1.25	125.50	124.50	258	11,861
Apr	127.50	-1.00	127.00	126.50	102	6,303
Total					14,000	174,184

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Dec	15.200	-0.020	15.240	15.200	170	3,280
Jan	18.070	+0.040	18.100	18.060	125	3,900
Total					1,000	24,610

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.450	+0.063	2.460	2.350	32,226	53,435
Jan	2.595	+0.043	2.610	2.530	9,716	34,094
Feb	2.510	+0.038	2.535	2.460	3,786	21,578
Mar	2.400	+0.043	2.400	2.350	2,174	19,619
Apr	2.270	+0.028	2.275	2.240	549	12,430
May	2.210	+0.018	2.220	2.195	238	9,334
Total					50,328	236,306

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	43.85	-0.1	44.35	43.50	13,130	32,996
Jan	43.80	-0.41	44.34	43.60	2,916	12,161
Feb	44.45	+0.05	44.50	44.25	481	4,965
Mar	45.10	+0.23	45.30	45.10	352	3,411
Apr	48.90	-	-	-	33	7,163
May	48.95	-	-	-	138	5,423
Total					16,800	78,117

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.40	-0.75	80.75	80.50	81	266
Jan	82.50	-0.65	83.00	82.25	215	2,809
Mar	84.50	-0.65	85.00	84.25	228	3,152
May	86.50	-0.65	86.75	86.25	131	2,250
Jul	88.50	-0.65	88.75	88.50	25	236
Total					712	9,264

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	287.50	+0.25	292.00	284.25	22,704	67,710
Mar	303.25	-	307.00	299.25	9,494	40,117
May	311.75	+0.25	316.00	308.25	392	6,850
Jul	319.75	+0.50	323.00	316.25	1,966	16,844
Sep	328.00	-	330.00	324.50	54	700
Dec	339.00	-	340.50	335.00	24	776
Total					34,820	132,848

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	216.75	-	218.00	215.25	40,415	146,882
Mar	228.00	+0.50	229.25	226.00	11,418	87,657
May	235.50	-	236.50	234.00	2,104	34,237
Jul	240.75	-	241.75	239.25	3,096	42,156
Sep	246.25	-	247.50	245.50	301	6,612
Dec	253.50	-	254.00	252.25	613	19,116
Total					58,081	338,081

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Nov	78.75	-0.75	-	-	-	43
Jan	80.75	-0.75	-	-	-	893
Mar	82.75	-0.50	-	-	-	151
May	83.75	-0.50	-	-	-	33
Sep	82.00	-	-	-	-	-
Total						1,128

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	550.75	-2.50	553.75	550.00	11,357	19,954
Jan	560.00	-2.00	563.00	558.75	32,504	84,898
Mar	568.75	-1.75	571.00	567.00	4,650	26,303
May	577.00	-2.00	579.50	576.00	1,241	11,978
Jul	585.00	-2.75	587.50	587.50	1,882	16,786
Aug	585.75	-3.75	588.00	587.00	309	1,226
Total					52,283	147,881

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	24.34	-0.05	24.43	24.13	14,255	46,925
Jan	24.44	-0.03	24.49	24.25	3,358	18,027
Mar	24.49	-0.04	24.56	24.36	1,503	18,860
May	24.57	-	24.62	24.45	946	9,545
Jul	24.69	+0.04	24.65	24.55	434	11,873
Aug	24.66	-0.06	24.70	24.62	184	1,061
Total					21,053	111,162

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	141.2	-0.7	142.6	140.1	8,904	68,487
Jan	143.4	-0.7	144.5	142.3	3,473	21,521
Mar	147.3	-0.5	148.1	145.8	941	17,620
May	150.6	-0.4	151.8	149.5	691	9,747
Jul	154.4	-0.8	155.5	153.2	783	12,808
Aug	156.2	-	156.7	155.0	674	2,345
Total					18,694	137,202

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Nov	125.0	+25.0	-	-	-	-
Mar	180.0	+15.0	-	-	-	-
Apr	276.0	+9.0	276.0	272.0	257	1,670
May	295.0	+9.0	-	-	-	-
Jun	296.0	+9.0	-	-	-	-
Total					257	1,670

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Nov	970	-40	990	970	19	375
Dec	980	-50	990	980	8	232
Jan	980	-50	1036	980	38	533
Apr	1010	-35	1010	1010	7	530
Jul	900	-20	900	900	7	268
Total					79	2,238

	Close	Prev
BFI	958	958

PULP AND PAPER

■ PULPEX DAILX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	430.25	+1.00	430.25	429.25	32	407
Mar	452.00	+0.25	452.25	451.25	47	216
Total					88	664

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association
Mombasa: There was good but irregular demand. Brighter BP1s were firm to a little easier while mediums were firm to 6 cents dearer; lower mediums declined by up to 12 cents but plainer sorts were steady to 8 cents dearer. Brighter PF1s were firm to 8 cents higher; well-made plainer descriptions were firm to dearer. Brighter PDusts were easier while mediums were firm to 8 cents dearer; lower mediums and plainer types were easier but closed firm. Brighter Dusts appreciated by up to 12 cents.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1002	-2	1007	1001	1,590	49,428
Mar	1035	-3	1042	1034	1,030	35,609
May	1053	-3	-	-	-	15,883
Jul	1071	-3	1074	1074	5	9,772
Sep	1089	-3	1094	1090	70	27,110
Dec	1111	-3	1110	1110	6	11,088
Total					2,735	158,878

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1508	-9	1516	1505	7,081	26,588
Mar	1544	-9	1552	1541	3,473	28,143
May	1570	-10	1573	1569	38	7,728
Jul	1597	-10	1597	1597	97	2,118
Sep	1619	-10	1627	1620	698	2,534
Dec	1649	-10	-	-	20	5,272
Total					11,461	78,325

■ COCOA (ICCO) (SDR's/tonne)

Nov 2	Price	Prev. day
Daily	1155.57	1151.44

■ COFFEE LIFFE (5 tonnes; $/tonne)

Nov	1910	+30	1910	1875	834	6,513
Jan	1700	+30	1702	1660	4,973	21,833
Mar	1655	+30	1657	1620	1,070	6,330
May	1634	+28	1621	1599	334	2,509
Jul	1619	+28	1608	1595	156	747
Sep	1604	+28	1597	1583	69	245
Total					7,649	38,329

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	128.95	+9.25	129.25	119.00	13,675	14,282
Mar	*118.60*	*+4.20*	*117.00*	*112.00*	*6,007*	*11,233*
May	115.85	+3.30	116.50	111.75	1,323	4,995
Jul	116.00	+2.75	115.00	113.00	255	2,069
Sep	115.75	+1.75	115.75	114.00	38	1,533
Dec	116.75	+1.25	116.50	115.50	10	736
Total					21,304	34,858

■ COFFEE (ICO) (US cents/pound)

Nov 2		Prev. day
Comp. daily	101.19	96.12
15 day average	95.43	94.96

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Dec	224.7	+3.5	225.0	221.5	4,306	13,201
Mar	228.4	+4.4	228.5	224.0	1,588	15,208
May	230.3	+4.3	228.6	228.5	11	3,106
Aug	229.9	+2.1	230.8	228.0	30	2,804
Oct	225.9	+1.8	227.0	226.0	2	2,130
Dec	228.8	+0.8	231.0	231.0	1	162
Total					5,938	38,664

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	7.87	-	7.88	7.68	5,070	87,046
May	7.95	+0.35	7.95	7.79	608	17,242
Jul	7.95	+0.26	7.95	7.83	283	14,773
Oct	8.13	+0.37	8.14	8.04	104	10,421
Mar	8.38	-	8.38	8.29	57	7,605
May	8.42	+0.17	-	-	40	553
Total					6,027	137,841

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	67.89	-0.07	68.23	67.30	4,310	36,213
Mar	67.20	+0.18	67.25	66.70	2,231	24,278
May	67.63	+0.07	67.68	67.20	282	14,171
Jul	68.00	-0.10	68.25	67.70	328	10,086
Oct	68.23	-0.32	68.30	68.25	32	883
Total					7,228	95,928

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	114.20	-1.40	116.25	114.20	177	1,072
Jan	115.65	-1.70	118.10	115.60	1,200	12,982
Mar	117.80	-2.30	120.00	117.80	124	5,602
May	119.70	-1.35	121.00	120.00	60	1,387
Jul	121.20	-1.35	124.00	124.00	51	669
Sep	121.70	-1.35	124.90	124.30	59	66
Total					1,511	22,018

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 2	Oct 30	month ago	year ago
1483.9	1470.7	1447.9	1820.3

■ CRB Futures (Base: 1967 = 100)

Oct 30	Oct 29	month ago	year ago
204.12	203.28	-	-

■ GSCI Spot (Base: 1970 = 100)

Oct 30	Oct 29	month ago	year ago
148.25	148.49	152.25	205.63

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-75	to	839,325
Aluminium alloy	+700	to	86,600
Copper	-200	to	468,625
Lead	-300	to	110,350
Nickel	-174	to	60,432
Zinc	-2,175	to	343,675
Tin	-45	to	7,000

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	64.575	+0.400	64.700	63.750	7,662	43,665
Feb	65.150	+0.725	65.200	64.125	2,690	28,157
Apr	66.175	+0.350	66.250	65.475	846	17,867
Jun	63.975	+0.300	64.000	63.400	512	10,123
Aug	63.675	+0.200	63.750	63.375	338	5,958
Oct	65.925	+0.375	65.950	65.500	47	657
Total					12,089	106,537

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Dec	35.525	+0.125	35.650	34.550	7,020	17,142
Feb	42.625	+0.625	42.700	41.300	3,936	9,888
Apr	45.900	+1.050	46.000	44.400	1,299	4,159
Jun	54.950	+0.550	55.000	53.600	594	2,918
Jul	54.600	+0.450	55.000	53.800	407	1,287
Aug	54.625	+0.600	55.100	53.900	248	1,393
Total					13,861	37,307

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	46.425	+1.075	47.150	44.500	1,398	3,984
Mar	45.850	+1.050	46.700	44.200	80	380
May	46.600	+0.775	46.900	45.800	26	175
Total					1,592	4,611

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1250	61	6	92	22
1300	28	23	61	40
1350	9	54	38	66
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
1500	107	8	152	32
1600	40	40	92	70
1700	9	109	50	127
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1600	118	112	18	57
1650	83	86	33	81
1700	58	84	58	109
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1000	14	53	12	18
1025	5	39	28	29
1050	2	28	50	43
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1250	-	-	15	-
1300	21	-	36	-
1350	6	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$12.47-2.54x	-0.38
Brent Blend (dated)	$11.88-1.94	-0.40
Brent Blend (Dec)	$12.88-2.94	-0.45
W.T.I.	$14.19-4.22x	-0.365
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$149-151	-1
Gas Oil	$112-113	-2
Heavy Fuel Oil	$59-61	
Naphtha	$134-136	-2
Jet fuel	$130-133	-1
Diesel	$123-124	-2.5
■ NATURAL GAS (Pence/therm)		
Bacton (Dec)	15.20-15.23	-0.04
Petroleum Argus Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$288.65	-3.70
Silver (per troy oz)♣	496.00c	-11.0
Platinum (per troy oz.)	$339.00	+3.0
Palladium (per troy oz.)	$273.00	
Copper	78.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.35r	
Tin (New York)	263.5	
Cattle (live weight)	76.80p	+1.11*
Sheep (live weight)	65.13p	-4.33*
Pigs (live weight)†	50.17p	+2.45*
Lon. day sugar (raw)	$187.40	-3.40
Lon. day sugar (wte)	$224.50	-1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	50.00p	
Rubber (Dec)♥	50.50p	
Rubber (KL RSS No1)	278.50m	-1.50
Coconut Oil (Phil)§	730.0y	
Palm Oil (Malay.)§	660.00	
Copra (Phil)§	$478.0y	
Soyabeans (US)	154.0y	
Cotton Outlook 'A' index	58.30	
Wooltops (64s Super)	398p	

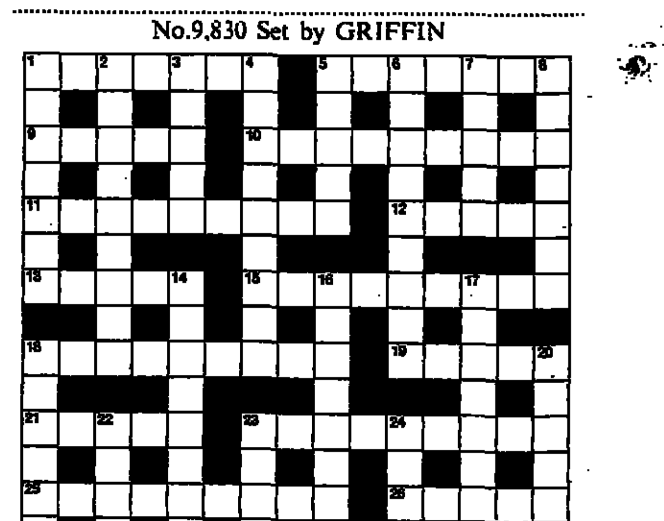
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Nov/Dec. † Dec. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. † Based on 3,568 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,830 Set by GRIFFIN



Neighbouring across clues contain each other's cryptic elements but their definitions are correctly placed

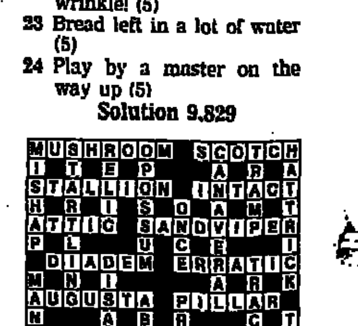
ACROSS

1 Stand behind garden feature (7)
5 A record salesman returns to help (7)
9 Gather central heating salesman has taken one (5)
10 Cheat friend endlessly perhaps (9)
11 Pushing is not allowed by soldiers (9)
12 Article with brown lining is bizarre (5)
13 Music centre I'm repairing around mid-morning (5)
15 No right to back fare increase (9)
18 Races one into a cold cargo vessel (9)
19 Boxer about to go into room (5)
21 Protects cooker and sink with two keys (5)
23 For one month continuously went down (9)
25 A profit? It's rather attractive! (9)
26 One old set needs replacing once more (5)
27 Furnished a home in mahogany, for instance (7)
28 Pupil gave up (7)

DOWN

1 Couple grabbing about ten from an artist (7)
2 North Carolina judge about to give testimonial (9)
3 Dog rescued from some cruel men (5)
4 Chief to visit sick record keeper (9)
5 Overcharge silly folk up to £1,000 (5)
6 Marvels as HP is raised with one name forged (9)
7 Bird damaged towel (5)
8 Flood hill fissure (7)
14 Is key to front door under harmonium as arranged? (9)
16 Fat man caught or thrown outside (9)
17 Join volunteers in harbour (9)
18 Try and fail to resolve weakness (7)
20 Rise and fall of rotter in *French church* (7)
22 Of clear age but without a wrinkle! (5)
23 Bread left in a lot of water (5)
24 Play by a master on the way up (5)

Solution 9,829



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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Orbe Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Funds

Credit Lyonnais Rouse (Bermuda) Ltd

Framlington Investment Mgmt (Bermuda) Ltd

Integral Management International Ltd

McKinley Offshore Management Ltd

Mediter Capital Management (Bermuda) Ltd

R.C.L. Investments Limited

Orbis Investment Management Ltd

Philo Smith & Co

Starfleet Investment Funds

CAYMAN ISLANDS (REGULATED)(**)

Adelphi Europe Fund

Africa Emerging Markets Fund

Allegro Capital Limited

Alstate Capital Management Ltd

Asian Convertibles & Income Fd (Cayman)

Atlas Real Estate Hedge Fund Limited

Bank of America

Bank of Nova Scotia Trust Co (Cayman) Ltd

Baring Mutual (Ireland) Limited

Bernard Partners Limited

Brown Simpson Asset Mgmt

Brunswick Capital Management (Cayman) Ltd

Butterfield Trust Managers (Cayman) Ltd

Cayman Quantitative Asset Mgmt Advisr LLC

Cathay Investment Fund Limited

The China Fund

Cosmo & Co Ag

Craig Drill Capital Ltd

Deutsche Bank A.G.

Falcon Fund International Inc

Fairside Capital Management Corporation

Formosa Growth Fund Limited

Framlington Group Plc

Franck Asset Management

GA – Rate Management Limited

Gale Currency Funds

Gemini Capital Limited

Global Fund Management S.A.

Grossman Asset Management

Guardian Global Asset Management

HJ Schroder Bank & Trust Company

HJ Schroder Overseas Trust

The International Investor

Kingdon Offshore N.V.

Korea Intl Investment Fund Ltd

Lionel Asset Management – LIBERAL FUND

MFS Meridian Funds

Merrill Lynch Asset Management Limited

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Offs Advisory Mortgage Fd Inc

Opportunity Fund Co

Orbe Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Pro Value AG

Prospector Fund Management Ltd

Prudential Securities Futures Mgmt, Inc

Putnam Offshore Funds

Salomon Brothers Global Funds

Stonehenge Fund Management Ltd

Taipei Fund

Tullamore Capital Inc

Tulsa Point Management Company LLC

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lazard Fund Managers (C.I.) Ltd

Lloyds Bank International Funds Ltd

Rothschild Asset Management – Contd.

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Aberdeen Fund Managers (Guernsey) Ltd

Apollo Investment Management Ltd

Barclays Global Investors Guernsey Ltd

Butterfield Fund Managers (Guernsey) Ltd

Gartmore Investment Mngt (Guernsey) Limited

Guinness Flight Fd Mgrs (Guernsey) Ltd

Long-Invest Capital Ltd

Rothschild Asset Mngmt (CI) Ltd

Royal Bank of Canada Strategic Global Fund

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc

Bank of Cyprus Group

Fidelity International Ireland Ltd

Guinness Flight Global Select Funds Plc

Old Mutual Fund Managers (Ireland) Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

AIB Capital Funds Plc

Allied Global Management Company Limited

ABN International Funds Plc

Abbey National Dublin Investment Fd Plc

Asia Growth Fund Plc

Bank of Ireland Unit Managers Ltd

Barclays Global Investors Ireland Ltd

Baring International Fd Mgrs (Ireland) Ltd

Bear Stearns Asset Mgt (Ireland) Ltd

City of London Investment Mgmt Co., Ltd

DWS International Fund

Eagle Star European Life Assurance Co Ltd

F.I.T. Investment Trust Ltd (a)

Fidelity Institutional Cash Funds PLC

Gartmore Fund Managers International

GT Global

Friends Provident International Fund Plc

Barcos Ireland Ltd

Irish Life International Global Funds Plc

Investec Asset Management (Ireland) Ltd

Lehman Brothers Asset Management (Ireland) Ltd

Morgan Grenfell Cash & Money Market Plc

Morgan Grenfell Fixed Income Funds Plc

The Northern Trust Global Cash Funds Plc

SG Global Master Fund – Institutional Class

Salomon Brothers Asset Management

Scottish Amicable European/International

Scottish Mutual Intl Fund Managers Ltd

Sothern Investment Mgmt (Ireland) Ltd

The Yasuda Korea Dynamic Korea Fund

ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Allied Dunbar Intl Fund Mngrs (IOM)

Ashburton Global Funds Ltd

Bank of Ireland Asset Mngmt (IOM) Ltd

Old Mutual Fund Managers (IoM)

Isle of Man Permanent Fund Managers Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

ISLE OF MAN (REGULATED)(**)

BOE International Asset Management (IoM) Ltd

City Financial Admin (IoM) Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

JERSEY (FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

Lloyds Bank (CI) U/T Mgrs.

Lloyds TSB Fund Managers (CI) Ltd

Midland Bank Fund Managers (Jersey) Ltd

Newton Fund Mgrs (CI) Ltd

CROSSWORD

Offshore Funds and Insurances

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LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣N	541xd	–	646	385	4,156	4.7	14.2
Bulmer (HP)		342½	+2½	427½	291½	–	5.5	14.8
Burn Stewart		10½	–	49½	7	44	–	–
Diageo	♣N	651½xd	-23½	*795	449½	4,292	3.0	19.7
Glenmorangie A		702½	–	975	685	–	2.5	16.4
B		827½	–	1050	827½	–	1.1	38.6
Highland	q	348½	-4	325	225	48	4.9	10.9
5¼pc Cv Sb Pf		92	-1	98½	88	–	6.5	–
Kirin Y		673¼	+2	673¼	416¾	–	0.9	62.7
Matthew Clark		238½	+48	242	115	4,593	6.8	8.2
Morrydown		24½	–	74½	23½	14	–	Φ
Seagram C$		£20½	–	£28¼	£14½	–	1.3	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Tilbury Douglas		238½xd	-½	*300	190	–	5.1	13.9
Try		16¼	–	28½	14½	139	7.8	4.8
UIE		71	–	112½	69½	–	2.6	13.8
Vibroplant		68	–	88	58½	–	8.4	–
Wainhomes		100½xd	–	139½	90½	3	6.0	7.7
Ward Hldgs		38½	–	60	27½	–	9.3	–
Westbury		178	+½	*272½	145	722	5.2	7.6
Wiggins Group		12	–	16	10	389	–	21.2
Wilson (Connolly)		125	+1	181	109½	0.788	5.6	8.7
Wilson Bowden		581xd	–	733	491½	109	2.8	10.6
Wimpey (G)		111½	-2	143½	90½	2,922	6.5	7.6

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

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The FT web site

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LONDON STOCK EXCHANGE

Late bout of profit-taking halts Footsie gains

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Investors rode on the European interest rate bandwagon yesterday, only to lose their collective nerve late in the day after Gordon Brown, chancellor of the exchequer, delivered his pre-Budget statement.

On the face of it, there was little in the statement to disturb the feeling of well-being that has returned to UK stocks in recent weeks.

Dealers said the late decline, which saw the FTSE 100 index dribble lower and eventually finish 21.6 off at 5,503.9, represented no more than a small dose of profit-taking, prompted by a sluggish Wall Street.

London's leading stocks initially fell in response to a dismal interim report from Marks and Spencer with Footsie falling more than 45 points.

But as the morning wore on, the market shrugged off the news and seemed briefly set for a fourth consecutive positive session. At its best, over lunchtime, the Footsie was 41.0 higher at 5,566.5.

There were solid performances from the market's second-liners and small-caps. Smaller stocks once again outpaced their senior brethren and the *FTSE SmallCap* index chalked up its 17th straight gain, jumping 13.0 to 2,048.0.

That extended the rise since the index began its marathon sequence of gains to 213.51 or 11.6 per cent. The FTSE 250, meanwhile, settled 23.9 firmer at 4,911.7.

Both the junior FTSE indices were bolstered by the continuing weakness of sterling. The Bank of England's trade-weighted index dipped below the 99 level yesterday for the first time in many months.

Apart from the Marks and Spencer setback, sentiment *in London had* been generally positive and driven by strong expectations that domestic interest rates will be cut again on Thursday when the Bank of England's monetary policy committee announces the outcome of its two-day meeting, which commences this morning.

The market was said to have already factored in a 25 basis points cut, which would be the second in less than a month after the October 7 reduction, and the optimists continued to hope for an even deeper cut of 50 basis points.

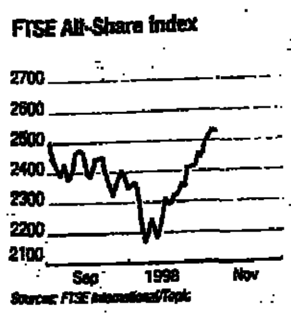
Market bulls pointed to *the continuing downward* trend of European interest rates with Sweden, Spain and Portugal nudging rates lower yesterday, and many were hoping that policy-makers at the Bank of France and the Bundesbank will also sanction interest rate cuts after their meetings tomorrow.

Looking even further ahead, the US Federal Reserve's open market committee holds its next meeting on November 17 and some hope for a further lowering of US rates.

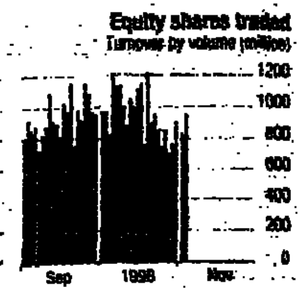
International stock markets did nothing to dent Lon*don's confident* tone. Although Wall Street lost its upward impetus yesterday, it had finished sharply higher on Monday, with the Dow Jones Industrial Average pushing through 8,700 and posting a 114-point gain. European markets were generally flat and Tokyo was closed for the day.

Turnover at 6pm came in at 953.9m shares, well ahead of recent daily levels. Around 53 per cent was in non-Footsie stocks.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5503.9	-21.6
FTSE 250	4911.7	+23.9
FTSE 350	2627.5	-6.4
FTSE All-Share	2539.26	-5.08
FTSE All-Share yield	3.09	3.08
FT 30	3364.6	-29.6
FTSE Non-Fins p/e	21.35	21.55
FTSE 100 Fut Dec	5544.0	-19.0
10 yr Gilt yield	5.04	5.17
Long gilt/equity yld ratio	1.62	1.66

Best performing sectors

1	Distributors	+1.8
2	Chemicals	+1.4
3	Banks: Retail	+1.0
4	Oil Integrated	+1.0
5	Investment Trusts	+0.9

Worst performing sectors

1	Tobacco	-3.5
2	Media	-2.6
3	Oil Exploration & Prod	-2.5
4	Alcoholic Beverages	-2.9
5	Retailers General	-2.0

Royal hit by rough weather

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Royal & Sun Alliance mirrored the market's nervousness ahead of the company's figures tomorrow.

When the Footsie was up in early trading, Royal shares were lower despite their gearing to the market because of the company's big equity portfolio. And when the index turned lower in the afternoon Royal fell further to close a net 24½ lower at 540p.

Weather, rather than the state of the equity market, is likely to provide the main focus of attention at the analysts' meeting. Royal has already indicated it could take a £50m hit from claims prompted by damage caused by Hurricane Georges. However, the recent floods in the west of England are also expected to hit underlying earnings.

And analysts will be keenly looking for signs of rising competition in an arena that has become increasingly harsh.

David Hudson at Credit Lyonnais Securities, one of the bears of the sector, said: "This is going to be a traumatic quarter. We are at the bottom of the range but we will probably have to go lower again."

Worries about the prospects for the sector tripped over to Guardian Royal Exchange which dipped 5 to 300p in spite of recurrent takeover talk. And it dragged down CGU by 19½ to 970p.

Hopes that UK retailers could escape the worst aspects of the economic downturn were dashed yesterday by what specialists saw as a profits warning together with interim figures below expectations from Marks and Spencer.

The bellwether reported pre-exceptional profits of £348.2m down from £452.3m a year earlier. However it was the news it would not meet sales expectations for the rest of the year that shocked the market and sent the stock plunging.

Dealers rushing to sell the stock sent it to a day's low of 398¾p. One trader said: "There is nothing that stale bulls can hold onto in this stock." The shares regained some ground to close 45 or 10 per cent down at 404p, the lowest point for the stock this year and by far the worst performer in the FTSE 100 yesterday. Turnover of 34m made it the busiest stock during the session.

FT 30 INDEX

	Nov 3	Nov 2	Oct 30	Oct 29	Oct 28	Yr ago	*High	*Low
FT 30	3364.6	3394.2	3320.6	3270.5	3228.1	3179.9	4004.9	2790.6
Ord. div. yield	3.14	3.12	3.17	3.23	3.28	3.54	4.22	2.72
P/E ratio net	21.34	21.51	21.12	20.77	20.46	20.76	25.41	15.80
P/E ratio nil	21.26	21.42	21.03	20.69	20.38	20.47	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
N/A	N/A	3379.7	3401.0	3388.3	3395.2	3375.3	3369.5	3409.4	3355.9

STOCK MARKET TRADING DATA

	Nov 3	Nov 2	Oct 30	Oct 29	Oct 28	Yr ago
SEAQ bargains	68,167	66,784	63,924	53,212	53,197	43,898
Equity turnover (£m)†	-	2685.1	2451.5	2460.3	2137.9	2232.8
Equity bargains†	-	54,265	49,365	41,485	43,481	38,504
Shares traded (m)†	-	749.6	764.6	665.3	639.1	991.5
Total market bargains‡	-	65,504	61,476	49,854	53,008	-
Total turnover (£m)‡	-	3453.5	3348.7	3457.9	3003.7	-
Total shrs traded (m)‡	954.7*	919.0	1009.0	872.5	829.9	
Tradepoint turnover (£m)	26.7	14.3	18.7	21.1	18.9	44.0
Tradepoint shrs traded(m)	9.6	6.1	8.8	11.4	8.2	16.5

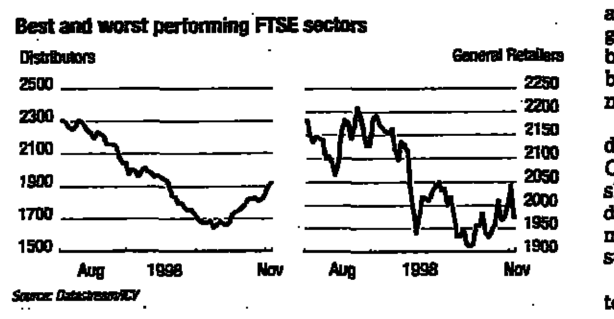
†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,125	Total Highs	39	Total contracts	43,025
Total Falls	454	Total Lows	42	Calls	15,126
Same	1,352			Puts	27,899

Nov 3 *Data based on Equity shares listed on the London Share Service.

Best and worst performing FTSE sectors



Source: Datastream/ICV

John Richards at BT Alex Brown chopped his current-year profits estimate by £125m to £695m and advised clients to "avoid" the shares. "M&S has to make a huge strategy adjustment in its buying in order to become much more competitive," he said.

Tony Shiret, at CSFB, now expects full-year profits to be 10 per cent lower at £850m and he predicts the shares will fall further in the short term. "Marks has yet to see the full impact of a combination of weak demand and rising capacity," he said.

M&S shares have retreated steadily from a 1998 high of 619½p. They have underperformed the FTSE All-Share by around 36 per cent since the start of January.

Marks and Spencer cast a shadow over much of the retailing sector. Next fell 22 to 493p while Debenhams surrendered 13 to 378½p. Boots also came under pressure, the shares declining 28 to 881p.

Poor figures from BP were ignored by the market, which pushed the stock higher in anticipation of the merger with Amoco.

The company released nine-month figures at the lower end of analysts' forecasts. BP also warned that it continued to face "weak trading conditions".

However the shares jumped almost 40p in early trading following a strong rally over the past week and, although the Footsie slipped into the red during the afternoon, they still closed 10½ higher at 905½p.

BT Alex Brown stressed its "buy" recommendation. The broker argued that while worries of a technical squeeze had driven the price higher "longer-term value remains, especially as the oil sector is, for the time being, depressed by an unsustainably low oil price".

John Toalster, at SG Securities, said: "Investors' eyes are firmly focused on the jam tomorrow of the Amoco merger."

Lucas move doubts

The progress of Lucas Varity's plan to move its listing to the US market is looking increasingly difficult to predict.

Amid the uncertainty, volume in the shares yesterday was 20m, the third busiest this year. They closed easier at 208p, having risen from a 52-week low of 168p in recent trading.

The low was struck as the shares came under pressure because funds started to reduce their holdings in anticipation of the move, and analysts have been suggesting the recent rally has been prompted by a growing belief that the transfer will not now go through.

One salesman said yesterday: "It's too close to call." Others suggested that, if the shareholder meeting on Friday blocked the move, the management may have to stand down.

The move is almost certain to be agreed by the necessary 75 per cent of shareholdings by value, but to win the vote LucasVarity needs to win a simple majority of the 17,500 individual shareholders, many of whom hold the shares as a result of working for the company.

BICC saw very brisk trade of 13m – the third-busiest in the past two years – ahead of a meeting with investors and analysts on Monday.

While the company played down the meeting by saying it was merely to provide an update on its strategy, there were hopes that it would announce the sale of its Balfour Beatty subsidiary.

The shares were down 1½ at 53½p but are well above the 52-week low of 36½p reached in recent trading.

BSkyB fell 26 to 469p with Panmure Gordon reiterating its "sell" recommendation and 350p share price target. The broker believes the earnings momentum has stalled and the pay-back from the broadcaster's digital investment is "unclear".

Alfred McAlpine bought back 1.25m shares at 138¾p through Cazenove. The purchase takes the buyback to 6 per cent, compared with the 10 per cent in the programme. The shares eased 1½ at 136½p.

Mobile telephone companies were again in demand. Vodafone Group gained 14 to 853p amid hopes of increased demand for mobile phone subscriptions in the Christmas period. SG Securities was said to have advised clients to "buy" the shares.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est vol	Open int.
Dec	5515.0	5544.0	-19.0	5615.0	5495.0	23711	202545
Mar		5589.0	-19.0			0	12134
Jun		5634.0	-20.0			0	7540

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

■ Regional Indices				
Africa (9)	1205.63	-3.0	1242.72	1261.45
Australasia (9)	1257.96	-1.2	1273.32	1232.48
Americas (11)	1028.24	-1.9	1048.13	1264.94

 Basis: US Dollars. Base Value: 1000.00 31/12/92. Additions: Uhr Gold, Delta Gold (both Australasia). Latest prices ...

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 3	Day's chge%	Nov 2	Oct 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5503.9	-0.4	5525.5	5438.4	4897.4	2.92	2.49	1.96	21.66	129.31	2431.09
FTSE 250	4911.7	+0.5	4887.8	4811.4	4874.8	3.62	3.07	2.11	16.34	121.85	2128.59
FTSE 250 ex Inv Tr	4945.0	+0.4	4923.7	4847.9	4705.4	3.77	3.20	2.18	15.22	126.75	2152.08
FTSE 350	2627.5	-0.2	2633.9	2592.4	2366.1	3.04	2.59	2.00	20.52	62.28	2371.72
FTSE 350 ex Inv Tr	2633.4	-0.3	2640.4	2598.9	2368.6	3.05	2.61	2.02	20.30	62.79	1219.32
FTSE 350 Higher Yield	2546.8	+0.1	2545.3	2509.2	2353.6	4.06	3.44	1.94	15.92	78.67	1970.62
FTSE 350 Lower Yield	2705.3	-0.6	2720.7	2673.3	2390.8	1.95	1.69	2.15	29.70	48.10	1979.24
FTSE SmallCap	2047.97	+0.6	2034.96	2012.34	2321.70	4.03	3.28	1.97	15.73	54.10	1801.64
FTSE SmallCap ex Inv Tr	2005.84	+0.6	1994.16	1973.99	2327.09	4.38	3.56	2.07	13.81	57.40	1784.20
FTSE All-Share	2539.26	-0.2	2544.34	2504.85	2316.92	3.09	2.63	2.00	20.22	60.49	2326.23
FTSE All-Share ex Inv Tr	2548.11	-0.2	2554.01	2514.45	2320.67	3.11	2.65	2.02	19.91	61.25	1201.11

■ *FTSE* Actuaries Industry Sectors

	Nov 3	Day's chge%	Nov 2	Oct 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(20)	4246.84	+0.6	4220.94	4163.46	4704.39	3.51	3.13	1.51	23.51	118.22	1975.02
12 Extractive Industries(6)	2854.45	-0.4	2867.19	2829.14	3243.02	4.79	4.41	1.99	13.12	126.49	919.31
15 Oil, Integrated(3)	4855.76	+1.0	4808.60	4751.14	5150.89	3.40	3.02	1.45	25.30	128.84	2320.70
16 Oil Exploration & Prod(11)	2158.09	-2.5	2214.42	2130.27	3794.94	2.55	2.22	0.96	61.30	46.95	1350.74
20 GEN INDUSTRIALS(211)	1778.71	+0.6	1767.77	1745.05	2053.94	4.12	3.63	2.22	13.64	58.49	1061.94
21 Construction(39)	1294.81	-0.4	1299.21	1291.81	1378.42	3.94	3.18	2.96	10.72	37.73	1171.89
22 Building Matls & Merchs(26)	1640.41	+0.5	1632.57	1592.24	1819.25	4.57	3.94	2.12	12.93	58.57	909.69
[illegible]											

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 3 / Sch)

BELGIUM/LUXEMBOURG (Nov 3 / Frs.)

CZECH REP (Nov 3 / Koruna)

DENMARK (Nov 3 / Kr)

FINLAND (Nov 3 / Mkka)

FRANCE (Nov 3 / Frs.)

GERMANY (Nov 3 / Dm.)

GREECE (Nov 3 / Drachma)

ITALY (Nov 3 / Lira)

NETHERLANDS (Nov 3 / Fls.)

NORWAY (Nov 3 / Kroner)

POLAND (Nov 3 / Zloty)

PORTUGAL (Nov 3 / Escudo)

SPAIN (Nov 3 / Pts.)

SWEDEN (Nov 3 / Kronor)

SWITZERLAND (Nov 3 / Frs.)

TURKEY (Nov 3 / Tk Lira)

PACIFIC

JAPAN (Nov 2 / Yen)

HONG KONG (Nov 3 / H.K.$)

INDONESIA (Nov 3 / Rupiah)

MALAYSIA (Nov 3 / MYR)

NEW ZEALAND (Nov 3 / NZ $)

SINGAPORE (Nov 3 / S$)

AUSTRALIA (Nov 3 / Aus$)

SOUTH KOREA (Nov 3 / Won)

TAIWAN (Nov 3 / TW $)

THAILAND (Nov 3 / Baht)

AMERICAS

CANADA

TORONTO (Nov 3 / Can $) 4 pm close

MONTREAL (Nov 3 / Can $) 4 pm close

MEXICO (Nov 3 / Peso) 12.30pm

AFRICA

SOUTH AFRICA (Nov 3 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY NOVEMBER 2 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY OCTOBER 30 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	192.30	1.4	170.95	139.65	165.03	204.66	1.0	3.62	189.57	167.82	139.64	163.23	202.63	219.96	163.86	203.51
Austria (22)	196.07	2.9	174.30	142.38	168.26	168.14	2.5	2.07	190.64	168.76	140.42	164.14	164.03	253.73	166.45	198.33
Belgium (22)	379.70	2.6	337.54	275.73	325.85	318.85	2.3	2.12	370.12	327.65	272.63	318.68	311.79	398.52	242.42	247.60
Brazil (32)	142.04	0.0	126.27	103.14	121.89	311.91	0.0	3.15	142.05	125.75	104.63	122.31	311.91	269.34	102.68	212.77
Canada (119)	192.83	2.3	171.42	140.03	165.48	214.93	1.8	1.88	188.51	166.88	138.85	162.31	211.17	248.78	159.94	214.42
Denmark (34)	480.16	1.9	426.84	348.68	412.08	409.63	1.6	1.70	471.12	417.06	347.02	405.65	403.43	537.33	408.26	410.36
Finland (29)	467.10	2.7	415.23	339.19	400.85	492.15	2.4	1.85	454.72	402.54	334.95	391.53	480.83	506.46	267.59	310.65
France (76)	301.89	1.7	268.37	219.23	259.08	262.12	1.3	2.38	296.78	262.73	218.61	255.54	258.70	345.18	222.08	226.36
Germany (55)	268.64	2.0	238.81	195.08	230.54	230.54	1.7	1.41	263.25	233.04	193.91	226.67	226.67	325.61	208.90	213.67
Greece (35)	287.20	6.8	255.31	208.55	246.47	575.94	6.1	1.51	269.01	238.14	198.15	231.62	542.88	333.20	211.47	–
Hong Kong, China (66)	319.96	0.7	284.43	232.34	274.58	318.02	0.7	4.20	317.71	281.25	234.02	273.56	315.96	389.74	196.64	367.53
Indonesia (26)	35.51	-2.2	31.56	25.78	30.47	173.17	2.3	1.84	36.31	32.14	26.74	31.26	169.28	138.38	19.04	123.64
Ireland (16)	477.26	1.6	424.27	346.57	409.58	446.06	1.3	2.13	469.58	415.69	345.89	404.32	440.40	560.44	373.47	377.09
Italy (53)	154.21	2.8	137.08	111.98	132.34	186.06	2.4	1.48	150.08	132.85	110.55	129.22	183.62	184.49	106.79	106.50
Japan (446)	97.12	4.7	86.34	70.53	83.35	70.53	3.2	1.06	92.77	82.12	68.33	79.88	68.33	109.85	76.83	109.85
Mexico (29)	1162.66	0.9	1033.55	844.29	997.77	12750.06	0.0	2.00	1151.88	1019.79	848.55	991.89	12750.06	1803.07	767.15	1510.28
Netherlands (27)	472.21	3.8	419.77	342.90	405.24	401.15	3.5	2.32	454.77	402.59	334.99	391.58	387.67	562.38	391.03	402.43
New Zealand (18)	57.47	5.4	51.09	41.73	49.32	57.47	5.1	5.13	54.52	48.27	40.16	46.95	54.69	88.56	45.68	83.25
Norway (38)	254.73	3.1	226.44	184.98	218.60	253.15	2.5	2.37	246.95	218.61	181.90	212.63	247.10	357.71	161.88	350.22
Philippines (22)	75.97	-0.2	67.53	55.17	65.20	153.15	0.0	1.01	76.16	67.42	56.10	65.58	153.15	106.98	42.48	83.62
Portugal (18)	260.51	3.4	231.58	189.17	223.56	301.76	3.0	1.07	252.05	223.13	185.66	217.02	292.88	299.39	194.13	–
Singapore (41)	188.05	4.8	167.16	136.55	161.38	140.73	4.5	2.17	179.40	158.81	132.14	154.47	134.61	264.82	102.45	235.45
South Africa (39)	208.78	-1.4	185.60	151.61	179.17	256.91	-1.1	3.61	211.79	187.48	156.00	182.35	259.69	346.20	151.55	286.37
Spain (30)	368.78	3.2	327.83	267.80	316.48	391.91	2.6	2.01	357.32	316.32	263.20	307.67	382.01	417.73	241.06	249.82
Sweden (46)	491.62	4.7	437.03	357.00	421.90	564.98	4.0	2.07	469.54	415.66	345.86	404.29	543.37	628.19	379.18	473.16
Switzerland (30)	393.60	1.8	349.89	285.82	337.78	328.93	1.3	1.29	386.65	342.28	284.81	332.82	324.61	439.48	307.73	313.52
Thailand (36)	20.06	6.3	17.83	14.57	17.21	28.53	6.1	3.31	18.86	16.70	13.89	16.24	26.90	36.03	8.15	29.09
United Kingdom (209)	358.53	1.2	318.71	260.35	307.68	318.71	1.6	3.07	354.32	313.66	260.99	305.08	313.66	401.84	307.96	320.00
USA (622)	454.70	1.2	404.20	330.19	390.21	454.70	1.2	1.43	449.07	397.54	330.76	386.66	449.07	485.88	369.13	372.70
Americas (802)	405.29	1.3	360.28	294.31	347.81	348.75	1.3	1.46	400.17	354.25	294.76	344.58	339.48	437.03	335.19	339.17
Europe (740)	336.34	2.1	298.99	244.24	288.63	300.91	2.0	2.23	329.40	291.60	242.63	283.62	295.10	386.24	272.02	275.80
Eurobloc (348)	96.90	2.5	86.14	70.37	83.16	89.98	2.1	1.91	94.52	83.67	69.62	81.38	88.11	113.28	81.53	–
Nordic (147)	460.73	3.6	409.57	334.57	395.39	451.08	3.1	1.98	444.49	393.48	327.41	382.72	437.61	565.97	360.04	419.08
Pacific Basin (729)	104.81	4.0	93.17	76.11	89.94	79.08	2.8	1.61	100.76	89.20	74.22	86.76	76.92	121.33	82.88	120.21
Euro-Pacific (1469)	201.01	2.7	178.69	145.97	172.50	162.26	2.2	2.05	195.78	173.32	144.22	168.58	158.75	220.19	166.00	185.14
North America (741)	437.13	1.3	388.59	317.43	375.14	439.25	1.3	1.45	431.57	382.04	317.89	371.59	432.75	469.20	359.18	362.87
Europe Ex. UK (531)	313.92	2.6	279.06	227.96	269.39	283.32	2.1	1.82	306.08	270.96	225.46	263.55	277.38	366.32	242.12	246.17
Europe Ex. Eurobloc (392)	92.23	1.7	81.99	66.97	79.15	90.14	1.8	2.56	90.70	80.29	66.81	78.10	88.56	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	94.08	2.7	83.63	68.32	80.73	87.89	2.1	1.55	91.62	81.11	67.49	78.89	86.04	109.21	75.16	–
Pacific Ex. Japan (283)	178.61	1.4	158.78	129.70	153.28	182.57	1.3	3.76	176.05	155.85	129.68	151.58	180.29	228.25	128.26	215.73
World Ex. Eurobloc (1962)	96.51	1.8	85.79	70.08	82.82	94.71	1.6	1.70	94.83	83.95	69.85	81.65	93.24	103.16	83.09	–
World Ex. US (1688)	200.79	2.6	178.50	145.81	172.32	167.27	2.1	2.08	195.73	173.27	144.18	168.53	163.77	221.91	165.95	188.67
World Ex. UK (2101)	275.40	2.0	244.82	199.99	236.34	243.67	1.7	1.58	270.09	239.10	198.95	232.56	239.65	298.02	234.24	240.90
World Ex. Japan (1864)	374.95	1.6	333.32	272.28	321.78	362.48	1.5	1.81	368.19	326.82	271.94	317.88	357.14	411.23	312.96	317.22
The World Index (2310)	282.52	1.9	251.15	205.16	242.46	250.53	1.7	1.73	277.29	245.47	204.25	238.76	246.41	306.56	241.30	247.63

 PLEASE NOTE: The World Indices quarterly changes are effective 3/11/98. For further information contact FTSE International Limited. CONSTITUENT CHANGES WITH EFFECT 3/11/98. Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Nov 2 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	872.04	+3.1	-21.8
Brazil	285.12	-0.0	-40.9
Chile	440.36	+2.1	-31.5
Colombia[1]	328.18	+0.4	-60.2
Mexico	491.59	+0.9	-37.6
Peru[2]	128.06	-3.1	-42.2
Venezuela[3]	348.37	+1.2	-61.9
East Asia			
China[4]	28.94	+2.2	-47.7
India[7]	60.09		-28.0
Indonesia[5]	18.45	-2.8	-51.1
Korea[6]	32.61	+5.2	+35.7
Malaysia	65.63	+3.8	-28.0
Pakistan[8]	78.58	+2.1	-68.0
Philippines	106.95	-0.2	-5.1
Sri Lanka[10]	65.14	+0.8	-44.0
Taiwan, China[9]	122.92	+3.0	-12.9
Thailand	80.50	+2.4	+28.6
Europe			
Czech Rep	51.45	+3.6	-6.0
Greece	518.17	+6.5	+58.9
Hungary[11]	265.53	+10.1	-15.6
Poland[12]	552.70	+5.5	-7.4
Portugal	290.33	+3.0	+37.8
Russia	20.76	+2.5	-86.0
Slovakia	44.78	+0.1	-54.8
Turkey[14]	140.04	+3.8	-55.1
Mideast/Africa			
Egypt	65.56	-0.4	-29.7
Israel	84.07	-0.8	-22.7
Jordan	211.28	+2.5	+0.5
Morocco	173.32	-1.6	+33.0
S Africa[13]	146.50	+2.1	-18.5
Zimbabwe[15]	95.77	-2.0	-61.9
Regions			
Composite	180.87	+2.2	-26.4
Latin America	425.34	+1.1	-37.2
Asia	91.57	+2.7	-15.0
EMEA	115.79	+3.0	-21.8
Europe	139.45	+4.9	-26.0
Eastn Europe	58.76	+8.5	-59.6
ME & Africa	159.40	+1.3	-17.0
Comp + Malay	180.66	+2.3	-26.6
Asia + Malay	89.90	+2.9	-16.6

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Apr 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close November 3

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

1998 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev Close
3½	1⅝	ECC Intl				814	2⅛	2⅛	2⅛	
33¼	18⅞	EDAG	0.56	2.1	11	361	26⅛	25	26⅛	-⅛
37¼	20¼	Earthgrns	0.16	0.5	32	3804	33⅛	32	33⅛	+1⅛
27⅞	23	East Utils	1.66	6.5	14	844	25⅜	25⅜	25	
45⅝	37⅝	E Enterpr	1.68	4.1	16	843	42	41⅝	41	
72	48	EastCh	1.76	2.9	17	2247	61½	59⅛	61½	+1⅝
88	57	Ekodak	1.76	2.3	63	8114	77⅜	75	75	-1
99⅝	57½	Eaton	1.76	2.8	10	2098	63	68	68	-1
33	26⅛	Ecolab	0.38	1.3	28	2915	30½	29	29	
31	25⅛	Edisnint	1.04	3.7	15	4867	27	27	27	
48	22⅝	EdwdAG	0.56	1.6	11	2552	35⅜	34	34	
9⅝	2½	Elcor Group			10	600	3	3⅛	3	
76¼	48¼	Elan ADR				2530	70	69⅛	69⅝	

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended

EUROBENCH® "INSECTS®" INDICES

European Benchmarks nv-sa est une société éditrice d'indices indépendante située à Londres et à Bruxelles. Les INSECTS® sont des indices d'actions sectoriels pan-européens - INdices on SECTorS - dont la constitution et la pondération sont basées sur la volatilité et l'inter-corrélation des actions sous-jacentes. Les actions constituantes des INSECTS® sont sélectionnées parmi le TOP 500 (en capitalisation boursière) des actions européennes. Les valeurs sont mises à jour toutes les 5 secondes de 08.00 à 18 15h CET sur Bloomberg, Bridge, Reuters, Telerate, Telekurs et TES. I devant un cours = Valeur Indicative, SETT = Settlement

Sector		SETT 03-11-1998	Close 03-11-1998	Previous 02-11-1998	Change on day	% Change	1998 HIGH	1998 LOW
Financials	USD	1933.38	1937.26	1928.51	+8.75	+0.45	2451.80	1382.68
IN-FIN	DEM	2248.88	2250.74	2223.86	+26.88	+1.20	3060.15	1650.17
Non-durable goods	USD	1732.85	1729.41	1751.04	-21.63	-1.23	1760.72	1209.24
IN-GOODS	DEM	2014.91	2008.25	2019.21	-8.96	-0.49	2195.63	1454.47
Oils	USD	1358.15	1352.11	1349.63	+2.48	+0.18	1633.86	1132.90
IN-OIL	DEM	1576.89	1570.91	1556.32	+14.59	+0.93	2027.16	1381.56
Pharma-chemicals	USD	1470.71	1472.68	1483.32	-10.64	-0.71	1680.68	1265.38
IN-PHARMA	DEM	1718.89	1718.99	1710.48	+0.51	+0.03	2115.51	1445.92
Telecoms	USD	2205.31	2209.57	2245.51	-35.94	-1.60	2437.22	1655.25
IN-TELCO	DEM	2564.27	2567.12	2589.41	-22.29	-0.86	3072.38	1862.52

De plus amples informations concernant les INSECTS et les actions constituantes peuvent être obtenues sur le web-site HTTP://WWW.EURO-INSECTS.COM et des informations concernant EuroBench sont disponibles sur le site HTTP://WWW.EUROBENCH.COM Sur ce site, vous pourrez également souscrire à un service e-mail gratuit. Pour obtenir des brochures informatives, appelez-nous à Londres (+ 44 171 336 7858) ou à Bruxelles (+ 32 2 509 94 60)

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8706.15	8592.10	8495.03	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	108.56	108.68	108.81	107.02 (5/10)	104.42 (11/8)	107.82 (5/10/98)	54.99 (1/10/81)
Transport	2954.85	2891.92	2800.52	3686.02 (16/4)	2345.00 (9/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	304.87	301.45	297.86	328.51 (8/10)	262.66 (9/1)	328.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 8804.51 (8718.28) Low 8573.56 (8481.30) (Theoretical¶)
Day's High 8742.97 (8659.81) Low 8555.70 (8498.12) (Actual¶)

Standard and Poors	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1111.60	1098.67	1085.93	1186.75 (17/7)	927.69 (8/10)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1326.63	1309.70	1298.34	1380.48 (17/7)	1027.49 (8/10)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	120.43	119.71	116.82	147.89 (14/7)	95.80 (8/10)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	551.24	543.35	536.31	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	650.62	645.41	637.48	763.67 (22/4)	563.75 (8/10)	763.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1800.81	1771.39	1757.19	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (31/10/72)
Russell 2000	386.82	378.16	374.48	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Oct 30	Oct 23	Oct 16	Year ago
Dow Jones Ind. Div. Yield	1.75	1.77	1.78	1.80
	Oct 28	Oct 21	Oct 14	Year ago
S & P Ind. Div. yield	1.36	1.36	1.47	1.55
S & P Ind. P/E ratio	31.32	31.24	29.50	24.60

US DATA

MARKET ACTIVITY

● Volume (million)

	Nov 2	Oct 30	Oct 29
NYSE	780.750	785.000	686.490
Amex	25.682	31.630	26.89
NASDAQ	893.251	924.911	904.070

NYSE	Nov 2	Oct 30	Oct 29
Issues Traded	3,517	3,519	3,480
Rises	2,308	2,208	1,859
Falls	813	875	1,148
Unchanged	395	436	465
New Highs	70	58	40
New Lows	19	24	31

NYSE TRADING ACTIVITY
Volume : 780,750,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Chgrp	20,710,100	46¾	–⅛
Compaq	8,948,900	31⅞	–⅛
AmOnLne	8,042,700	135	+7⅞
Healthsth	6,943,000	13¾	+1
Boeing	6,572,500	41⅛	+3⅞
Disney	6,242,600	28⅞	+1¾
Chrysler	5,198,200	48⅞	+⅞
LucentTch	4,822,000	83¾	+2⅞
MicroTech	4,820,800	39⅞	+1⅞
Mattel	4,750,500	65⅛	+1⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
CHS Elect	11¾	+1¾	+17.9
InputOutp	10⅛	+1⅛	+16.2
Tiffany	36⅞	+4¾	+14.3
PolaRLaur	22¾	+2⅞	+14.1
Downs			
BdfdProp	16½	–1¾	–7.7
Skyline	20¾	–1⅞	–5.8
ACE Ltd	32¾	–1¾	–5.2
SunGard	32¾	–1½	–4.4

NASDAQ TRADING ACTIVITY
Volume :893,251,000

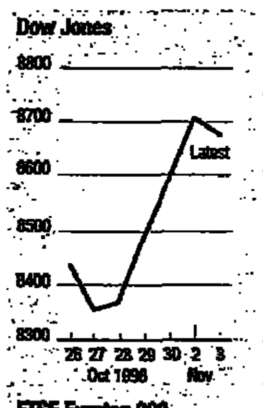
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Ciena Cp	37,304,900	21⅞	+4¾
PrgTch	20,692,800	13¾	+5⅛
DellCmp	19,407,400	69¾	+¾
CiscoSys	14,625,800	84⅞	+7⅞
Intel	13,133,500	91⅞	+2¾
Micsft	11,819,200	105⅞	–⅛
Yahoo	10,273,300	145⅞	+14¾
3Com	8,946,900	36¾	+⅛
Netscp	8,652,700	24⅛	+3
WrldCm	8,405,800	55⅛	–⅛

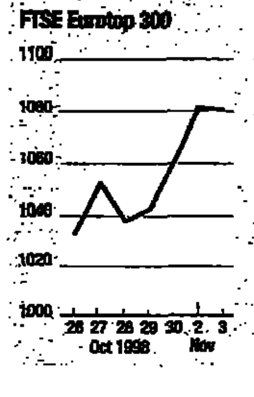
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
PrgTch	13¾	+5⅛	+65.8
Remedy	11¾	+3	+34.3
Ciena Cp	21⅞	+4¾	+26.9
Tel–Sve	11¾	+2⅛	+24.0
Downs			
Bamest	12⅛	–1⅞	–12.9
SiliconVGp	11¾	–1⅛	–9.3
J&J Snack	20⅛	–2⅛	–9.2
Williamsnds	22¾	–2¼	–8.6

Dow Jones



FTSE Eurotop 300



JAPAN

	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	(c)	13952.75	13564.51	17264.34	12879.97	38915.9	85.25

Day's high – Day's low – .

TOKYO TRADING ACTIVITY
Volume : 373,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
FujiBk	21,034,000	499	+53
MitTrB	20,209,000	171	+19
Sakura	19,752,000	305	+15
DaiwaBk	11,066,000	232	+18
BTokM	7,119,000	1150	+89
Itohole	7,104,000	103	+6
SumTrB	6,304,000	348	+23
IndBk	5,576,000	607	+50
SumBak	5,479,000	1210	+65
Hitachi	5,471,000	624	+31

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
YasTrB	127	+30	+30.9
TokCar	88	+17	+23.9
NCR Jp	674	+92	+15.8
Hasoko	56	+7	+14.3
Downs			
Asahi	103	–37	–26.4
SumFst	793	–76	–8.7
Calonc	313	–17	–5.2
CenGls	178	–9	–4.9

GERMANY

	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4705.08	4761.15	4671.12	6171.43	3896.08	6171.43	931.18

Day's high: 4799.20. Day's low: 4704.80

FRANKFURT TRADING ACTIVITY
Volume : n/a

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dt Tel	563,535	45	–1.1
Bayer	498,787	68.9	–0.3
Veba	411,520	92.5	–0.3
Dt Bk	370,889	102.1	–1
RWE	363,282	88.5	–3
Mannesm	339,894	170.8	+0.8
Siemens	333,685	101.5	–1.7
Commzbk	315,711	49	–0.5
BASF	315,365	68.7	–0.8
DresdBk	310,345	65.6	–0.4

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
BilfBg	39	+3.7	+10.8
Strbag	109	+10	+10.1
Lahmyr	92	+5.5	+6.4
MchRkO	530	+24	+4.7
Downs			
SGLCar	119	–16	–11.9
Trinett	26.7	–2.3	–7.9
ZnFpap	125	–10	–7.4
Adidas	174.5	–9.5	–5.2

FRANCE

	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3583.64	3569.60	3522.93	4388.48	2862.54	4388.48	984.61

Day's high: 3616.86 Day's low: 3551.50

PARIS TRADING ACTIVITY
Volume : 477,019,520

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Alcatel	1,650,268	603	–8
FrTele	1,589,953	379	–7
Usinor	1,411,570	67.9	+1.4
EIfAqu	1,372,232	675	+21
Axa	1,280,948	643	–1
MchlnB	1,119,699	250	+10
RnaultA	931,395	238.5	–7.5
TotalB	797,976	684	+14
RhonPA	773,741	263	+4
Paribas	631,295	435	+4

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Equant	275	+19	+7.4
CrLyCl	428.1	+28.1	+7.0
BIC	369.8	+22.8	+6.6
ClubMd	461	+27.8	+6.4
Downs			
SGE	252.1	–15.9	–5.9
Imetal	570	–25	–4.2
Seb SA	528	–23	–4.2
Rnault	238.5	–7.5	–3.0

UK

	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5503.9	5535.5	5438.4	6179.00	4648.70	6179	986.9

Day's high 5566.5 Day's low 5480.0

LONDON TRADING ACTIVITY
Volume : 983,900,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
M & S	34,565,610	404	–45
BP	33,182,900	905½	+10½
Shell T&T	28,232,320	365½	+2½
Smith (DS)	27,135,560	120½	–4½
Cander	26,057,200	[illegible]	+1
TI Grp	22,453,630	361	–3
LucasVarty	20,909,010	208	–½
Billiton	13,365,400	142	–4½
BICC	13,016,990	53½	–1½
H.Hodown	12,345,040	57	+4

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Peptid Therp	125	+36½	+41.2
Macfarlane	71½	+15	+26.6
Macgrew Ck	239½	+48	+25.1
Xaar	75	+15	+25.0
Downs			
Darby Gp	49	–41½	–45.9
Pfist Tech	14	–9½	–40.4
Ramco Engy	370	–45	–10.8
Albion	45	–5	–10.0

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	1120.60	1118.80	–2.60	1121.80	1117.50	96,438	389,994
Mar	–	1131.50	–	–	–	1,552	10,396
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open Int.**
Dec	13760.0	14000.0	+450.0	14000.0	13680.0	24,586	184,472
Mar	13770.0	13890.0	+360.0	13890.0	13770.0	23	7,579

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	3600.0	3590.0	+15.0	3627.0	3553.0	72,774	209,638
Dec	3605.0	3584.0	+45.5	3632.0	3553.0	1,433	79,986
DAX							
Dec	4805.0	4711.5	–58.5	4807.0	4706.0	20,607	81,983
Mar	4772.0	4751.5	–52.5	4828.0	4758.5	151	1,564

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	650.25	642.50	–12.75	657.50	639.25	35,837	222,018
Dec	659.25	643.50	–11.00	659.25	643.50	3,694	1,723
SOFFEX							
Dec	6681.00	6600.00	–52.00	6685.0	6576.00	27,931	162,861
Mar	6604.00	6623.00	–44.00	6683.0	6604.00	718	4,338

WORLD MARKETS AT A GLANCE

Country	Index	Nov 3	Nov 2	Oct 30	1998 High	1998 Low	₰ Yield	₰ P/E
Argentina	General	18631.59	18747.92	18263.63	23485.47 23/3	12303.14 10/9	3.72	11.4
₰Lower in cautious trading ahead of third-quarter earnings announcements.								
Australia	All Ordinaries	2675.6	2672.5	2647.3	2881.40 16/4	2458.20 1/9	3.06	20.5
	All Mining	621.7	624.4	627.4	713.10 23/4	499.80 31/8		
Select blue chips including News Corp and ANZ lifted the All Ords while in broader market falls beat rises by 12 to 11.								
Austria	Credit Aktien	(c)	401.87	391.32	584.34 26/5	346.44 8/10	2.05	12
	ATX Index	1163.06	1180.02	1149.51	1628.58 28/5	982.06 1/10		
RHI, the fireproof materials manufacturer, was the leading loser, down 7 per cent.								
Belgium	BEL20	3262.84	3231.17	3156.09	3632.07 20/7	2357.78 10/1	1.82	19.6
A 15.5 per cent rise in October new car registrations supported sentiment.								
Brazil	Bovespa	7339.0	(c)	7047.0	12289.80 15/4	4761.00 10/9	na	na
₰Rallied as investors tried to catch up on gains made in international markets on Monday.								
Canada	TSE 100♦	385.00	387.96	381.51	475.63 25/5	324.81 5/10	1.86	17.3
	Metals Mnls♦	3114.81	3107.79	3095.77	4380.01 10/3	2500.18 31/8		
	TSE300Comp♦	6274.90	6315.66	6208.28	7822.38 22/4	5335.70 5/10		
	Portfolio§§	3222.93	3243.13	3198.64	3985.81 25/5	2719.24 5/10		
₰Shares eased led by gold issues.								
Chile	IGPA Gen¶	3521.53	3435.27	3398.81	4861.95 17/3	2980.95 14/9	3.84	10.5
China	Shanghai B	33.68	32.98	33.23	59.58 10/2	26.25 12/8	1.52	27
	Shenzhen B	63.98	62.58	62.75	98.97 10/2	49.88 13/8		
Hard-currency shares rebounded on increased volumes amid buying from domestic investors.								
Colombia	IBB	824.08	(c)	825.57	1431.48 7/1	776.17 14/10	na	na
Czech Republic	PX 50	398.5	399.0	388.3	517.30 23/3	316.00 8/10	na	na
Denmark	CopenhagenSE	618.42	622.08	615.04	778.84 7/4	586.95 9/10	1.64	16.8
Tele Danmark which accounted for almost 25 per cent of all KFX volume, closed up 1 per cent.								
Egypt	Cairo SE Gen	361.49	359.68	(c)	393.19 21/4	345.49 2/2	na	na
Finland	Hex General	4554.34	4575.41	4481.06	5503.43 21/7	3220.43 12/1	2.47	14.7
Shares ended three-day rally as Nokia ran into profit-taking after adding 60 per cent since October low.								
France	SBF 250	2308.63	2297.17	2264.11	2799.73 17/7	1873.10 12/1	2.62	17.4
	CAC 40	3583.64	3569.60	3522.93	4388.48 17/7	2862.54 12/1		
Market closed higher but off its best levels as rate cuts in Spain, Portugal and Sweden provided support.								
Germany	FAZ Aktien	1514.07	1518.90	1480.68	1940.80 20/7	1258.58 2/10	1.61	17.7
	Commerzbank	4420.70	4440.70	4328.20	5712.68 20/7	3689.20 2/10		
	DAX‡	4705.08	4761.15	4671.12	6171.43 20/7	3896.08 8/10		
Blue-chip indices unimpressed by rate cuts elsewhere in Europe and investors unsettled by poor corporate results.								
Greece	Athens General	2273.28	2289.60	2162.98	2825.52 21/7	1380.13 29/1	2.04	16.5
	FTSE/ASE 20	1396.94	1408.15	1317.53	1727.13 21/7	755.18 29/1		
Profit-taking put pressure on prices after Monday's 5.9 per cent jump.								
Hong Kong	Hang Seng	10358.52	10170.08	10154.94	11810.83 25/3	6660.42 13/8	3.68	12.8
	HSCC Red Chip	1139.48	1011.29	925.47	1775.89 27/2	576.07 1/9		
China plays soared after news that red chips would be included in the IFC Asia index.								
Hungary	Bux	5767.61	5801.38	5312.65	8818.36 23/4	3775.02 21/9	na	na
India	BSE Sens.	2812.06	2811.44	2812.49	4280.96 21/4	2764.16 20/10		
	Crisil 500	584.00	588.17	570.60	846.82 21/4	567.66 20/10	na	na
Indonesia	Jakarta Comp.	317.18	307.19	300.77	554.18 2/2	258.83 21/9	3.45	18.7
Broadly firmer on expanded turnover in spite of weakening rupiah. Indosat outpaced market ahead of Q3 results.								
Ireland	ISEQ Overall	4459.55	4451.31	4391.95	5471.81 21/4	3745.11 8/10	2.24	16.4
Israel	Tel Aviv 100	281.25	279.92	(c)	337.43 8/6	249.19 8/10	na	na
Modest gains posted in late trade although concerns remained about the exchange rate and economy.								
Italy	BCI Comit. 30	298.77	300.05	293.29	388.80 20/7	248.51 9/10	2.06	21.7
	Banca Com Ital	1273.78	1285.12	1247.04	1654.38 7/4	1083.50 9/10		
	Mibtel General	20204.0	20258.0	19825.0	26377.00 6/4	16781.00 9/10		
Market fell back on profit-taking in trade described by dealers as very thin.								
Japan	Nikkei 225	(c)	13952.75	13584.51	17264.34 2/3	12879.97 9/10	1.07	38.9
	Nikkei 300	(c)	212.38	205.39	257.43 10/2	192.39 9/10		
	Topix	(c)	1065.84	1035.60	1300.39 10/2	980.11 15/10		
	2nd Section	(c)	1089.02	1082.55	1481.27 12/2	1028.84 13/10		
Jordan	Amman SE	(u)	183.06	(c)	184.52 17/8	160.81 26/10	na	na
Malaysia	KLSE Comp.	421.91	419.78	405.33	745.36 27/2	262.70 1/9	3.48	11.6
Lack of violence at start of sacked finance minister's trial helped sentiment.								
Mexico	IPC	4082.77	(c)	4074.86	5204.80 2/1	2858.19 10/9	1.71	10.7
₰Market opened sharply higher, taking lead from Brazil and Monday's performance on Wall Street.								
Morocco	CASA	805.32	817.85	826.88	883.98 1/9	666.57 21/1	na	na
Netherlands	CBS TRtnGen	1188.1	1182.1	1142.0	1498.09 20/7	874.90 8/10	2.44	19
	CBS All Shr	667.8	664.4	641.9	845.00 27/7	548.10 8/10		
Shares moved in narrow range as recent upswing ran into profit-taking.								
New Zealand	Cap. 40	1959.98	1949.74	1878.55	2350.02 20/3	1808.24 2/10	5.14	17.2
Telecom, Fletcher Energy and DB Group pushed index forward while Carter Holt Harvey dipped 5.7 per cent.								
Nigeria	SE All-Share	(u)	5856.69	5671.0	6504.87 11/2	2298.40 12/1	na	na
Norway	Oslo SE Ind	1727.24	1775.75	1743.42	2370.68 4/5	1359.78 8/10	2.31	12.1
Market turned back after recent strong gains, led down by Kvaerner after group issued profits warning.								
Pakistan	KSE-100	853.02	857.00	841.70	1746.31 2/1	765.73 14/7	na	na
Stocks overshadowed by continuing row between government and Hub Power Company.								
Peru	Lima Gen	1201.95	1198.65	1231.62	1993.91 4/5	1168.50 21/9	na	na
Philippines	Manila Comp	1801.64	(c)	1755.04	2311.42 25/3	1082.18 11/9	1.6	12.3
Continued to drive forward with the peso. PLDT jumped 4.7 per cent while Metro Pacific soared by more than a third.								
Poland	Wig	13161.2	12899.9	12345.4	19882.78 11/3	10472.78 9/10	2.4	7.8
Market's rally extended into third straight session but analysts expected profit-taking in coming sessions.								
Portugal	BVL 30	4790.25	4797.31	4657.51	6176.80 22/4	3580.08 2/10	2.16	24.9
	PSI 20	10946.94	10955.36	10639.05	14292.98 22/4	8114.51 2/10		
Market edged lower in spite of rate cut by Bank of Portugal.								
Russia	RTS	59.36	58.38	57.54	411.81 5/1	38.53 5/10	na	na
State prices were mixed although turnover picked up sharply to $4 1m.								
Singapore	SES All-S'pore	355.93	358.16	348.87	437.98 19/3	253.20 4/9	2.55	17.4
	Straits Times	1263.47	1263.14	1204.62	1698.75 19/3	805.04 4/9		
STI finished near the day's lows in busy trade after reaching an intraday high of 1,319. Falls more than beat rises.								
Slovakia	Sax	88.03	89.21	89.42	182.48 5/1	88.03 3/11	na	na
Shares fell to another all-time low in very thin trade.								
South Africa	JSE All Share	5959.0¶	5977.5	5928.3	8358.70 20/4	4894.40 11/9		
	JSE Gold	990.5¶	1036.2	1060.9	1310.60 8/10	672.80 18/3		
	JSE Indl.	6760.8¶	6762.0	6602.9	9942.70 20/4	5246.90 11/9	4.73	9.8
Investors took profits in gold shares as the bullion price weakened.								
South Korea	KoreaCmpEx**	407.64	404.61	384.75	574.35 2/3	280.00 16/6	1.29	18
Keen foreign demand outweighed selling by domestic investors. Volume was very heavy while falls narrowly beat rises.								
Spain	Madrid SE	784.55	789.48	771.55	947.82 17/7	648.29 5/10	2.12	21.1
Shares succumbed to profit-taking despite Bank of Spain rate cut after gains of 6 per cent in previous three sessions.								
Sri Lanka	CSE All Share	(c)	498.73	498.90	789.70 4/5	481.00 3/9	na	na
Sweden	AffarsvardnGen	3068.1	3103.5	2993.5	3955.60 20/7	2411.70 8/10	2.51	17.6
Nine-month figures from Sandvik and SEB, at the lower end of expectations, and profit-taking, sent shares lower								
Switzerland	SMI Index	6595.5	6642.4	6550.6	8412.00 21/7	5126.50 5/10	1.4	20.9
	SPI General	4177.56	4200.78	4143.33	5237.39 20/7	3311.28 5/10	na	na
Profit-taking and the weaker start on Wall Street put prices under pressure								
Taiwan	WeightedPr.**	7071.44	7218.09	7101.46	9277.09 2/3	6251.38 3/9	1.57	19.4
Sentiment hurt by news of defaults on stock payments by several investors. Financial sector fell 3 per cent.								
Thailand	Bangkok SET	343.16	334.93	331.29	558.92 3/2	207.31 4/9	2.86	59.7
Banks jumped 3.7 per cent and financials 2.9 per cent and domestic retailers continued to chase shares higher.								
Turkey	IMKB Nat 100	2407.72	2278.55	(c)	4530.99 16/7	1852.28 8/10	5.13	9
Blue-chip financials led rally, with the upbeat mood partly supported by mixed expectations for October's inflation data.								
Venezuela	IBC	3872.06	3719.41	3631.22	7856.92 23/3	2684.70 10/9	na	na
Zimbabwe	ZSE Industrial	(u)	5833.20	5832.50	8795.71 31/3	5441.85 1/9	na	na
Industrials were higher as the market looked to the rainy season to lift depressed sentiment.								
WORLD	FT/S&P World($)	(u)	282.52	277.39	305.82 17/7	242.36 5/10	na	na
	MS Capital Intl$	1053.6*	1057.6	1037.2	1143.80 20/7	888.59 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	2972.82	2977.50	2914.67	3670.82 20/7	2433.97 8/10		
	DJ Euro Stx 50	2952.23	2952.04	2887.11	3658.48 17/7	2419.23 8/10		
	FTSE E300	1080.39	1083.27	1062.73	1327.88 20/7	893.55 5/10		
	FTSE E100	2488.10	2486.98	2440.67	3089.91 20/7	2040.81 8/10	na	na
	HSBC Orgn	(u)	213.58	209.83	273.81 26/3	161.71 5/10	na	na
	ING Brngs Emrg	(u)	111.86	107.13	160.08 22/4	88.84 11/9	na	na

** Sat Oct 31: Taiwan Weighted Price 7165.98 ; Korea Comp Ex 403.44. Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Oct 3: 4709.32 –53.15. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¶ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation. ₰ Yields and P/E ratios are based on Datastream Total Market indices. ₰ Midsession.

THE NASDAQ STOCK MARKET

4 pm close November 3

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

THE NASDAQ STOCK MARKET

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close November 3

Stock	Div.	P/E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

The EASDAQ All Share Index (EASI) for 3rd November 747.28 up 2.27% Day's high: 748.75 Day's low: 741.66

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low
4Front Technologies	USD7.875	+0.375	0	11.5	5.25
ActivCard	USD2.35		31450	6.375	2.25
Algol♦	ITL24875	+250	10070	44250	13250
Artwork Systems	USD16.0625	+1	23685	21.125	5.875
Autonomy Corp.	USD2.625	–0.0625	0	4.1875	2.5625
Chemunex♦	FRF8.2	–0.6	26000	22.5	8.2
City Bird Holding	USD7.0625	+0.0625	1550	10.3125	6.1875
Dialog Holdings	GBP1.88	+0.03	44390	7.1	0.8
EDAP TMS	USD2.125	+0.1875	0	9.125	1.5
EPIQ	DEM6.75		2500	10.375	4.75
ESAT Telecom	USD30.6875	–0.3125	10500	43.75	13.5
Espace Prod. Int.	FRF103.75	+0.02	2120	121.25	88.3
Esprit Telecom	USD21.125	+3.625	10970	46.625	4.875
Eybl International	ATS290	–2	11791	690	267
F.L.V. Fund	USD14.75	+0.625	11990	22.25	11.875
Global Graphics	FRF230	+1.5	10595	238.5	173
Global TeleSystems	USD41.25	+0.125	2100	62.375	21.25
Granger Telecom	USD11.375	–0.125	3200	27.25	10.25
Gruppo Formula	ITL20350	+1100	41225	95500	14250
ICOS Vision Syst	USD13.875	–0.125	2410	20.875	11.625
Innogenetics	USD60.25	+0.875	61128	74	9.875
Integr. Surg. Syst.	DEM7.1	–0.4	200	12.2	4.5
Lernout & Hauspie	USD41.875	+1.25	79261	65.25	13.125
Meltens	USD11	+0.75	8830	30.0625	7.375
Memco Int'l♦	USD6	+0.25	0	12.875	5.75
NTL	USD48.75	–0.25	220	63.75	20.5
Optos Int'l	USD41.125	+0.875	4487	67.83	10.88
Orthovita, Inc.♦	USD7.875	+0.25	15100	11.625	7.5
Pond Racing Syst.	ATS3680	–370	1898	5150	2965
Pharming	NLG16.5	–2.75	41186	33.5	15.75
PhyTech♦	USD2.92	+0.02	6070	7.625	2.125
Royal Olympic	USD4.375	+1	2000	18.5	2.875
S&T Syst Integrat.	ATS1935	+22	1003	4155	1819
Schoeller-Bleckmann♦	ATS790	+19	3126	1795	750
TelDaFax	DEM62.5	+3	337	88.25	54.75
Topcall Int'l♦	ATS3865	+125	14113	5038	622
Turbodyne Technol.♦	USD5.4	–0.06	9710	18.83	2.1

Priced for 3/11/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: http://www.easdaq.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9800). Annual/Interim reports can be obtained for companies with a ♦ marked in this box. Annual Reports Club telephone +44 181 770 0770. For further details please see Unit Price pages.

STOCK MARKETS

Interest rate cuts fail to inspire investors

WORLD OVERVIEW

Further gains in Asia and three separate interest rate cuts in Europe failed to inspire stock markets yesterday as investors mostly drifted to the sidelines, *writes Jeffrey Brown.*

It was a day of taking stock, not helped by the Tokyo shutdown. Advances of more than 2 per cent predominated across Asia while in Europe, Spain, Sweden and Portugal all cut key rates by 25 basis points, but investors opted to assess recent progress.

This has been significant. Since the lows of early October, the FT/S&P World Index *has risen almost 17 per cent* while Europe, in similar dollar terms, has gained almost a fifth.

Compared to Asia, of course, where four to five-week rallies in excess of 30 per cent are commonplace, these solid improvements can look mundane. The latest blaze of eastern excitement centres on Hong Kong where the so-called China plays are turning in eye-catching performances.

Yesterday, the red-chip *index shot ahead 12.7 per* cent and H shares jumped 10.5 per cent after the International Finance Corporation, the unofficial referee of emerging market investment, added both indices to its investable and global index series for China.

The news lifted China's weighting in the IFC Asia index from 2.4 per cent to a top of the line 10.7 per cent and significantly enhances the region's investment attractions. The red-chip *index now stands at a startling* 97.8 per cent above its September low.

Most European markets gave ground. Trading volumes were on the thin side and an early show of weakness on Wall Street dictated final direction. Frankfurt lost 1.1 per cent and even Madrid, comfortably higher at one stage on the official rate cut, came off 0.6 per cent.

The setback for German equities took some of the *shine off the theory that the* latest wave of European rate cuts were a precursor to a downward move tomorrow by the Bundesbank.

The consensus view is that the central bank will again stay its hand in spite of the likelihood of weak German industrial production figures for September, due out the same day.

However, although the need to allow fellow EU member countries to bridge the convergence gap may be *dictating policy at present,* few observers doubt that the Bundesbank will move lower at some stage.

And support may come from across the Atlantic. HSBC expects US interest rates to come down by a further 50 basis points before the end of this year.

Wall St rally runs into heavy selling

AMERICAS

US shares moved lower in early trading, reversing the recent strong run, with high-tech and small-company shares soaking up much of the selling pressure, *writes John Labate in New York.*

The Dow Jones Industrial Average was down 5.92 by early afternoon to 8,700.23. The broader Standard & Poor's 500 index fell 2.66 to 1,108.94.

Wall Street's recent rally has taken many by surprise, given widespread uncertainty about future earnings. But recent cuts in interest rates by the Federal Reserve, and the expectation of future reductions proved enough to stop the market falling back.

"What concerns me is how the market's rallied back *and taken some of the small-*cap stocks up 50 per cent to 200 per cent in just several days," said Warren Epstein, director of trading at Richard Rosenblatt & Co in New York. He felt equities may be in for another round of sharp selling if earnings and economic expectations for next year worsen.

The high-tech weighted Nasdaq composite index was off 16.61 or 0.92 per cent at 1,784.30. The Russell 2000 of small-cap shares also pulled back, down 1.47 to 385.35.

Financial shares were mixed. Citigroup plunged $2 3/16 or 4.7 per cent to $43 13/16 as uncertainties continued to mount after the surprise resignation of its president. But MBNA plunged more than 10 per cent or $2 7/16 to $20 1/4 after Merrill Lynch cut its short-term rating to "neutral" from "buy".

Select cyclicals continued to stand out on the upside with investors. Paper shares were strong, with Georgia-Pacific up $1 1/16 to $52 5/16. Among Dow component cyclical stocks, Union Carbide surged $2 5/16 to $42 7/16 and General Electric climbed $1 5/16 to $88 11/16.

In the insurance sector, Aon fell 7.8 per cent to $56 5/16 after the company issued a profits warning. Investors also sold major internet shares. Amazon.com fell $13/16 to $130 3/16 and Yahoo! $2½ to $142 13/16.

TORONTO ran into modest *profit-taking* with sentiment not helped by a slow opening on Wall Street. Most heavyweight sectors moved lower, and at noon the 300 composite index was off 46.36 at 6,269.30.

Banks, a strong market lately, fell back. Royal Bank of Canada dipped C$1.15 to C$71.25 and Bank of Nova Scotia lost 80 cents at C$31.85. Canadian Imperial retreated 65 cents to C$31.35 in busy two-way volume.

In golds, Barrick shed 40 cents to C$31.45 and Placer Dome came off 15 cents at C$23.20. Among industrials, Northern Telecom shed 25 cents to C$67.90.

São Paulo plays catch-up

SAO PAULO moved ahead as it tried to catch up with other markets following a public holiday on Monday, and the Bovespa index rose 275 or 3.9 per cent to 7,323.

Investors bought shares in response to Monday's rise in international markets, although traders said the focus was likely shift to domestic politics. Congress is expected to vote on a reform bill, seen as a precursor to the approval of government austerity measures.

BUENOS AIRES failed to move in tandem with the rest of the region and followed Wall Street lower. The Merval index fell 1.25 or 0.3 per cent to 473.28. Investors are cautious ahead of the spate of third-quarter results announcements.

MEXICO CITY, which was closed on Monday, tracked Brazilian shares, and the IPC index advanced 7.27 or 0.2 per cent to 4,082.13.

Profit-taking hits Jo'burg

SOUTH AFRICA

Johannesburg was broadly lower as investors took profits in gold shares after the bullion price weakened. The gold index tumbled 45.7 or 4.4 per cent to 990.5, but the overall index held its losses to 18.5 at 5,959.0.

Financials dropped 47.4 to 9,571.7 although Nedcor managed a 380 cent rally to R116. Industrials were flat, with the index just 1.2 weaker at 6,660.8.

Madrid sees early gains melt

EUROPE

Shares in **MADRID** followed Wall Street lower, shedding earlier gains made after the Bank of Spain took the market by surprise with a 25 basis point cut in its money *market* repo rate. The general index, higher in each of the three previous sessions, closed down 4.94 to 784.55.

Banco Santander fell Pta80 to Pta2,660 following a broker's downgrade. Banco Bilbao Vizcaya lost Pta30 to Pta1,975.

Tabacalera, the tobacco group, fell Pta80 to Pta3,400 on worries over crop damage in Honduras and Nicaragua caused by Hurricane Mitch.

Investors focused on third-quarter earnings with Repsol, which releases nine-month figures tomorrow, up Pta90 to Pta7,180.

STOCKHOLM failed to capitalise on the central bank's 25 basis point rate cut, and the general index fell 36.07 or 1.2 per cent to 2,998.28.

Shares opened slightly *higher in response to the cut* in the repo rate by the Riksbank, but profit-taking triggered by a lower Wall Street and poor nine-month results depressed prices.

SEB, the commercial bank, fell SKr2.50 to SKr82 after *reporting a third-quarter loss* as it set aside provisions for its Russian exposure.

Ericsson fell SKr1.50 to SKr182, while Astra, which posted earnings figures in line with expectations on Monday, rose SKr1 to SKr133.

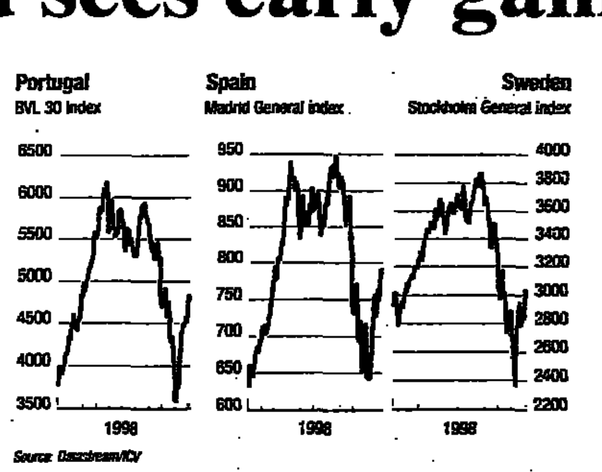
PORTUGAL edged lower in spite of a rate cut by the Bank of Portugal, with the BVL 30 index closing down 7.06 to 4,790.25.

The central bank cut its repo rate by 25 basis points to 3.75 per cent. However, shares lost earlier buoyancy as the leading European bourses and Wall Street gave up ground.

FRANKFURT paused after three days of gains and the Xetra Dax index turned lower, closing down 53.15 at 4,709.32.

Deutsche Telekom lost 89 pfg to DM45.41, hit by comments by Ron Sommer, the chief executive, that a price war among Germany's long-distance telephone companies would make it harder to produce "results that our shareholders expect". Analysts dismissed a subsequent statement from the company, denying that the comments amounted to a profits warning.

SGL Carbon, the carbon and graphite group, tumbled DM15.50 or 11.4 per cent to DM120 after the company unveiled nine-month figures at the lower end of expectations and warned that full-year profits would be lower than 1997.



Source: Datastream/ICV

Banks remained under pressure as Goldman Sachs downgraded its 1998 earnings estimates on Dresdner Bank, Deutsche Bank and HypoVereinsbank. HypoVereinsbank lost DM4.55 to DM122.50 and Deutsche Bank fell DM2.10 to DM102. Dresdner Bank, weak on Monday after its nine-month figures failed to live up to some expectations, was *flat* at DM66.

Adidas-Salomon, the sportswear and equipment maker, continued its slide from Monday when the company reported a slowdown in third-quarter earnings growth and *predicted* a net loss in the fourth quarter. The shares lost DM10 to DM175.

PARIS derived support from the day's interest rate cuts and the CAC-40 index finished 14.04 higher at 3,583.64, off a high of 3,616.86.

Profit-taking in Alcatel sent the stock FFr8 lower to FFr603. France Telecom lost FFr7 to FFr379, unnerved by Deutsche Telekom on pricing pressure.

Pharmaceuticals group Sanofi, a recent outperformer, fell FFr17 to FFr843 as the company unveiled lower third-quarter sales.

AMSTERDAM traded narrowly to close 3.80 higher at 1,034.40 on the AEX index with another solid day for financials proving the best *feature.*

ING added a further Fl 2.80 to Fl 100.70 and Aegon gained Fl 3.80 to Fl 174.30 as interest rate cuts elsewhere in Europe kept hopes for a downward move shortly by the Bundesbank – and therefore the Dutch central bank – firmly on investors' agendas.

BolsWessanen, which recently came in for positive broker comment, jumped Fl 1.10 or 4.7 per cent to Fl 24.60. In contrast, Heineken tumbled Fl 5 or 4.9 per cent to Fl 97.70.

ZURICH ran into profit-taking that sent the SMI index down 45.9 to 4,596.5.

Swiss Re, however, outperformed the blue chips, jumping more than 7 per cent in early trade on news of a surprise German financial merger involving an insurer in which the Swiss group holds a large stake. Shares in Swiss Re closed SFr143 higher at SFr3,175.

Swisscom, a strong performer since its debut last month, gave up SFr6.50 to SFr478 as the stock ran into profit-taking.

SGS, the troubled cargo inspection and testing group, shot up SFr72 to SFr1,040 on news that it was to axe 116 jobs in Geneva.

MILAN fell back on profit-taking in thin trading, and the Mibtel index edged down 54 or 0.3 per cent to 20,204.

Mediolanum, the mutual fund, rose L1,313 or 2.9 per cent to L45,980 on hopes of lower interest rates and an inflow of funds. Telecom Italia fell L155 to L11,950 on disappointment over the board's failure to appoint a managing director at its meeting on Monday.

Fiat rose L17 to L4,780 on persistent speculation over an international alliance.

BRUSSELS was higher on the back of a stronger dollar and gains in some cyclical stocks. The Bel-20 index firmed 31.67 to 3,262.84.

KBC Bancassurance gained ground in a technical recovery rising BFr140 or 5.8 per cent to BFr2,565 after coming under pressure in recent sessions from a series of large sell orders and some downgrades by analysts.

Chemicals group Tessenderlo also found demand on the view that the stock looked cheap. The shares rose BFr120 or 6.2 per cent to BFr2,060 as a firmer dollar raised the prospect of better returns from its US operations.

ISTANBUL soared 5.8 per cent, still catching up with advances in neighbouring markets during the long weekend break marking the 75th anniversary of the Turkish republic.

The IMKB National-100 index finished 131.17 higher at 2,407.72, piercing key resistance at 2,300, in a rally led by blue-chip financials.

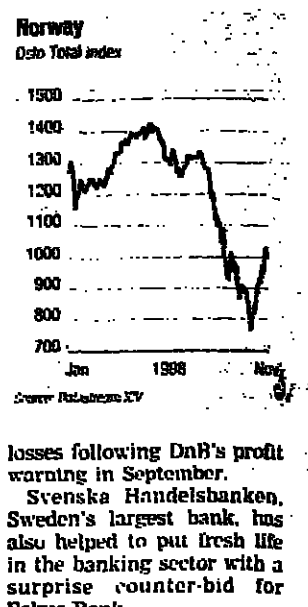
Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

MARKET FOCUS

Oslo rides on recovery wave

Although it ran into a squall *of profit-taking yesterday,* Oslo remains one of the stronger performing stock markets since the recovery for European equities got underway last month.

The benchmark Total index stood at 1,423 in the first week of May. Five months later, it had almost halved to 766. Yesterday it ended at 1,002.70, down 2.6 per cent on the day but still 32 per cent above its low for the year.



Source: Datastream/ICV

Never before has the Norwegian share market risen so far in such a short space of time, the Oslo Exchange happily reported in its monthly bulletin.

Share prices have risen on the back of positive economic signals from outside Norway such as the refinancing plan for Japanese banks and the recent cuts for US interest rates, says Peter Warren, chief trader at Finansbanken in Oslo.

One of the key factors in Oslo's swings has been the improved oil price, a significant factor in Norway's energy-based economy, says Bengt Bangstad, Oslo stock exchange spokesman.

In addition, the krone rebounded when the central bank announced last month it would start support operations. The krone depreciated in mid-October to its lowest level since August, forcing the central bank to raise interest rates by 300 basis points.

Now investors, who a few weeks ago anticipated interest rates would remain high, share a common view that rates will go down in 1999, and possibly in 1998, says Mr Bangstad.

Financial and IT stocks have led the recent rally, the indices 46 per cent and 44 per cent respectively above October lows.

Among financials, better-than-expected earnings from Norway's two largest banks, Den norske Bank and Christiania Bank, helped regain losses following DnB's profit warning in September.

Svenska Handelsbanken, Sweden's largest bank, has also helped to put fresh life in the banking sector with a surprise counter-bid for Fokus Bank.

Christiania Bank and the state-owned Postbanken are considering a three-way merger with Fokus Bank. On the day of Handelsbanken's announced cash bid of NKr70 per share, Fokus Bank rose 17.6 per cent to NKr63.50.

Doubled profits from Merkantildata, a computer company, and interest in telecommunication stocks, such as Netcom, led the IT index to rebound 18 per cent in October.

After the IT sector, offshore sector stocks showed the strongest growth, rising 23.5 per cent. Shares in oil service group Petroleum Geo-Services, the fifth in weighting on the stock exchange, rose 29 per cent.

Yesterday, however, the sellers were out in force, pocketing some of these gains. Kvaerner, the Anglo-Norwegian construction and engineering group, lay at the root of the problem, spooking sentiment with a surprise profits warning barely a week after the appointment of a new chief executive.

Valeria Skold

HK looks afresh at red chips

ASIA PACIFIC

A burst of liquidity into **HONG KONG**'s red-chip stocks sent prices in the sector soaring. The Hang Seng China-Affiliated Corporations index surged 128.17 or 12.7 per cent to close at 1,139.46, reaching its highest level since June 1.

Analysts noted there had been no change in fundamentals. Rather, every company with links to China was attracting investments.

Moreover, the International Finance Corporation's decision to include red chips in its investable and global index series for China had prompted some potentially long-term portfolio shifts.

Tokyo was closed for the Culture Day public holiday

Merrill Lynch has said it suspects the $40bn-$45bn of emerging market funds that the IFC estimates use its indices as a benchmark will have to take another look at China, and specifically at red chips.

Merrill analyst John Pinkel said portfolio shifts could have a significant impact on red-chip prices since investable China involved a small free float of less than $20bn.

The Hang Seng index, meanwhile, added to October's 29 per cent advance with a day's rise of 188.44 or 1.9 per cent to 10,358.52 in turnover that picked up to HK$12.1bn.

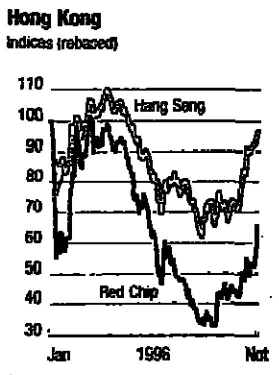
JAKARTA put on 3.3 per cent as investors bought blue chips on the back of strong regional gains, undeterred by the weakening trend in the rupiah. The composite index closed 9.98 higher at 317.18.

Telkom, up Rp150 to Rp2,175, and Indosat, Rp650 higher at Rp9,425, were lifted by overnight gains in the companies' US listings.

BANGKOK rose sharply as retail investors targeted the bank and finance sectors. The SET index closed 12.49 or 3.7 per cent higher at 347.42. Banks jumped 6.7 per cent while the finance sector managed to put on 6 per cent.

The building and telecoms sectors also made strong gains, rising 5.5 per cent and 4.6 per cent respectively.

TAIPEI moved lower after news of payments defaults alarmed investors. Two institutional and two individual shareholders defaulted on T$297m worth of stock bargains.



Source: Datastream/ICV

Financials fell 3 per cent and the heavyweight electronics sector came off 1.4 per cent. The weighted index closed 146.65 or 2 per cent lower at 7,071.44.

SYDNEY ran into late profit-taking, turning a high on the All Ordinaries index of 2,696.5 into a closing level of 2,675.6, up 3.1.

News Corp climbed 36 cents to A$11.39 while in a generally weak banking sector ANZ advanced 35 cents to A$9.80.

MANILA gained ground for the eighth consecutive session, helped by the continued strength in the peso. The composite index closed up 46.60 or 2.7 per cent at 1,801.64 – just above its 1,800 resistance.

Philippine Long Distance Telephone gained 45 pesos to 1,010 pesos on its talks with potential investors into the company. Officials have said that the group was in talks with Hong Kong First Pacific and SBC Communications in the US.

Metro Pacific, the Filipino subsidiary of First Pacific, rallied on its parent's talks with PLDT, and closed up 48 centavos to 1.84 pesos.

SINGAPORE closed flat after an early rally ran out of steam. The Straits Times index brushed an intraday six-month high of 1,318.86 before turning back to close just 0.33 higher on the day at 1,263.47.

The local and foreign tranches of banking stocks featured again among the session's top gainers, followed closely by property issues.

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